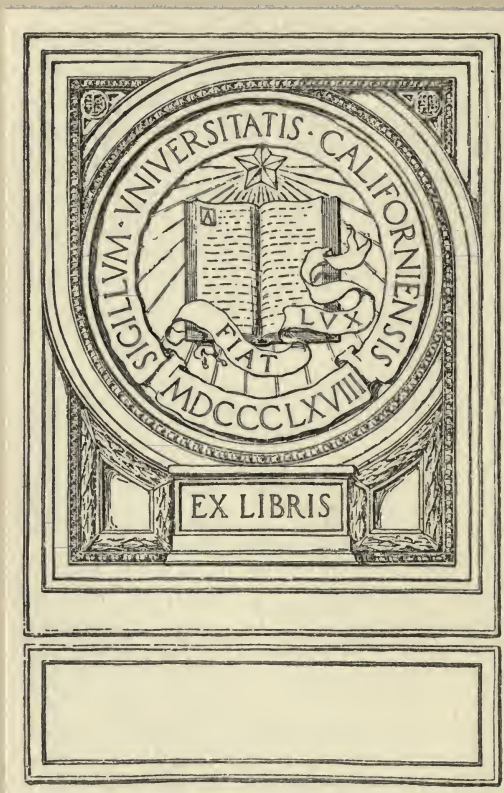
WHAT NEXT IN EUROPE?

By

FRANK A. VANDERLIP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UNIV. OF CALIFORNIA

BY

FRANK A. VANDERLIP

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PREFACE

In Europe and in the bordering Asiatic states, including Asia Minor, there are half a billion people. We can hardly grasp the fact that the lives of more than a quarter of the world's population are being shaped by the events of the War, and even more by the developments which are growing out of the Peace.

Discussions of trade conditions, currencies, government budgets and government debts embrace incomprehensible totals, the unit of which is that colossal sum, the billion. They form the background against which to view the gigantic human problem that is being faced by the entire continent. It is not merely a story of finance and economics; it is the most thrilling human episode in the history of mankind. The vast numbers involved are for the greater part made up of the most cultivated, intelligent and specially trained people in the world. The crisis in which they are involved is a great human tragedy, and is far from being a mere matter of pounds, francs and marks.

The economics of Europe is not a subject to be left to technical financial experts. It is something that every intelligent person in the world should attempt

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to understand in its broad effects and its consequences to humanity.

In America we stand aloof, in a sense. It is true that we are deeply interested, that we are thinking internationally as we never thought before, but we hardly apprehend how closely related are our affairs to the European situation. We like to call ourselves hundred-percent. Americans, and forget that this may mean hundred-percent. provincialism. The very thing that we blame Europeans for, an exaggerated national ego which is playing such a large part in their disorganization, is a trait which we ourselves have highly developed. We regard it as the purest form of patriotism to raise the standard of "America First." We do not mean by that that America should be first in leadership, in helpfulness, in breadth of understanding, but rather that we should be first in selfishness. National selfishness is the root of the deteriorating growth which is threatening the civilization of Europe.

Some familiarity with European affairs had led me to a firm conviction in regard to the importance of America understanding what has befallen that great mass of humanity. To recognize the unity of the world does not mean that one must forswear his own country. It opens the way, instead, to a better knowledge of what courses are for the permanent and ultimate welfare of our people. It is because of that belief that I have ventured to add to the amount of

printed matter in regard to Europe which has already become so voluminous that no student, however industrious, could encompass more than a small part of it.

In undertaking an economic study of the situation growing out of the War and the Peace, I have tried to approach the subject from a constructive point of view. Merely to diagnose the ills with which Europe is afflicted is of no great service unless some practical suggestion can be made which will arrest further deterioration. I believe that as America comes to understand the European situation better, she will see that rehabilitation is necessary. We can look at Europe more objectively than any European can. There is the most pressing need for developing comprehensive plans to put dislocated machinery in order, and to set curative forces in motion.

The problem is not one that is practically remote from us. It is a far more impractical course for us to maintain our isolation than it would be for us to assume a really great rôle of leadership. A narrowly selfish attitude will be disastrous to our own material welfare. But if we are to be selfish, let us be intelligently selfish. That demands an understanding of Europe, and a realization that we are inextricably involved in world affairs.

It has been with the hope of making some small contribution toward a better apprehension of the present

European problems that this book was undertaken. My conclusions have been aided by a great number of persons who are importantly related to the responsible work of directing government action. Without exception, I found government officials prepared to discuss frankly and fully the problems which they face. Practically every one with whom I came into contact was anxiously desirous that I should acquire the utmost knowledge of their difficulties. Europe desires to be understood, and perhaps above all, to be understood by America.

I owe the most complete acknowledgment to the people I met in every country for their efforts to make clear the problems in which they are involved.

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PART I

THE BACKGROUND

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CHAPTER I

OUR UNDERSTANDING OF EUROPE

WHATEVER else this book may prove to be, it is not the closet-musings of an economist. It has for a background over four months' travel through fifteen European countries, months including August, September, October, November, 1921. Its shortcomings will not be on account of the lack of opportunity for observation, nor lack of contact with responsible government ministers, financiers, industrialists, and labor leaders of Europe.

My aim has been to go a step beyond a journalistic report on the immediate conditions. As a matter of fact, accurate description of the superficial aspect of European affairs at the moment would be misleading. The structure of social and economic life in Europe is standing on insecure foundations. Outwardly there are some obvious signs of its insecurity of base, but on the whole the casual traveler will find Europe presenting a better aspect than it has at any other time since the armistice.

To test foundations is more difficult than to ascertain if a roof needs shingling. That partially accounts for the variety of views with which travelers

in Europe have returned to America. Indeed, it accounts for the failure of Europe to see itself in a clear light, although in that respect Europe has come to understand its own situation far more clearly in the last two years. The greatest progress that has been made in Europe since the armistice has been a progress toward clearness in economic vision, although real clarity of economic thought is still confined to a small minority.

In this new survey of European conditions, fifteen countries were visited—England, Germany, Czecho-Slovakia, Austria, Switzerland, Italy, Greece, Turkey, Bulgaria, Jugo-Slavia, Hungary, Poland, Holland, Belgium and France, in the order named. During the tour we returned for the second time to Austria, Germany and England.

In all these countries, I found ample opportunity to discuss conditions with the heads of governments and with responsible government ministers. Bankers, financiers and great industrialists were of course easy to meet. Labor leaders had to be sought out but were easy of access. In the main, they were extremely well informed and had an intelligent understanding of both the social and economic aspects of the situation.

Another source of information, from which came an intensely interesting light upon conditions, was the Americans who are at work in Europe. The various

welfare projects which America has undertaken on a great scale and with amazing efficiency have brought a new type of American into the European picture, a type which on the whole causes great satisfaction. From Washington Irving on, we have had many observers of the social life of Europe who have given us literary impressions, sometimes acute and sometimes superficial. In the present generation, there have been many business observers from this country. Their point of view was usually circumscribed by their personal interests, which as a rule centered in their attempts to sell something to European customers.

The American men and women who during and since the war have been engaged in helpful projects for alleviating the distress of Europe have studied conditions from a fresh point of view. Among these Americans, many of whom have been in Europe for a number of years, may be found some of the best minds and the most acute observers of European life that are to be found anywhere. Americans of this type have approached Europe with an objectivity that no native European can possibly have.

I am inclined to give the very greatest weight to the conclusions reached by the staff which has been managing the American Food Administration, the wonderful organization for which Herbert Hoover is largely responsible. That organization has literally

saved the lives of millions of European children. I do not use that figure as an adjective but as a sober statement of fact. In carrying on that work, those responsible for it have had an unexampled opportunity to understand Europe and have brought to its problems minds broadly trained in social administration. The results they have accomplished have given to America a prestige which helps to open all doors to any intelligent American enquirer.

Opportunity and work of this character has by no means been confined to the American Food Administration. Work of a similar nature is being done with great effectiveness by the Quakers and on a smaller scale by the Mennonites. The Young Men's Christian Association and Young Women's Christian Association are of incalculable benefit and their program is planned with great wisdom. They have never lost sight of the necessity of encouraging youth throughout Europe to self-helpfulness. The aim of these different groups has been to induce Europe to participate in the responsibility of the work undertaken, rather than to pauperize people into helpless dependency.

The achievement of the American Red Cross since the armistice has been a valuable contribution. The efforts of the Near East Relief have alone saved hundreds of thousands of children. In these widespread welfare efforts I doubt if America's left hand has known what her right hand has done. I am quite

sure that few Americans understand the extent of the relief that has been given and the depth of European appreciation. Our altruism has served to diminish old hatreds and antagonisms and has set good impulses in motion, which have been turned into effective accomplishment by these organizations.

One of the most effective and least advertised among all these movements is the aid that is being given college students in Central and Eastern Europe. The passion for education which has come with the new democracy in these countries is amazing. The extreme sacrifices that young men and women are making to obtain an education, the almost insuperable difficulties they are facing and the fine result that a little help in this direction accomplishes are things that we should better appreciate. This is a field in which our aid must increase for there can be only one opinion as to the value of the results attained. Civilization cannot go forward without educated youth.

The older American educational and religious institutions in Europe have had an even longer experience in studying the needs of the peoples among which they are established. They are very generous in giving one the fruits of their observations and in opening avenues of approach to interesting individuals.

As I have said, my investigations included Switzer-

land. My arrival was timed to coincide with the gathering of the League of Nations. To be in Geneva then was to be in the midst of a congress of the whole world. No matter what opinion you held about the League, it was impossible not to feel the thrill that came from looking down on that assembly of the representatives of forty-eight nations.

The opportunity of meeting these influential men from every important country except the United States was unique, but it was not all that Geneva offered. The Assembly itself was a passing affair. The Secretariat of the League, the permanent executive organization, was a rich mine of opportunity and information. It appears to me to be composed of men who had been selected because of fitness, high purpose, and passionate enthusiasm for human service. Considering the fact that America is not a party to the League, it was surprising to find a considerable number of Americans holding responsible positions in that organization. The serious research which the League has been carrying on for over a year on economic and social questions has grown into a tree of knowledge, the fruits of which we are free to gather.

America's contact with the European situation in another direction was impressive, and of great aid in gaining a true conception of European affairs. Our diplomatic and consular representatives, and the commercial attachés who represent the Department of

Commerce seemed to me of a new order of excellence, particularly in central Europe and the Near East. We are represented in the main by men who have an intelligent understanding of the conditions surrounding them, and who are a credit to our country.

I have in times past known American Embassies whose chief activities were social, and whose interest and comprehension of the problems of the people among whom they were placed were superficial and crude. That is not the case to-day. The change in some measure is undoubtedly attributable to a recognition in Washington of the serious nature of the duties of our foreign representatives, and the need for picking men for their ability, rather than their political service. But the true reason is probably deeper than that. It lies in the unexampled responsibility that representatives of our government have had in conducting relations in such disturbed and novel situations as Europe presents to-day.

I am not a fresh tourist of Europe. I have had a growing familiarity with the Continent, and what is much more important, with Europeans, over a period of more than thirty years. My trips have never been vacations; usually they have been opportunities for serious and extended study. But in spite of that background of experience, I have a feeling that during this particular tour I have been on a voyage of

fresh discovery, for I have seen in rapid succession and with new insight the present altered aspect of nearly every European State.

The impression of the enormous mass of creative accomplishment that has accrued in two thousand years of progressive civilization is overwhelming. We like to think of America as the "greatest country on earth." But the richness of Europe's agricultural possibilities would challenge the admiration of the Mississippi Valley. The extent of its industrial plants would make Pittsburgh take off its hat. The superb municipal equipment of some of its cities would make our civic enthusiasts wonder if Detroit, Kansas City or Los Angeles are, after all, the last words in the lexicon of municipal perfection.

The material plant of Europe is so impressive that it leaves one with the belief that nothing so splendid can possibly crumble into decay. But its permanence will not seem so certain if we turn from the material to the human side of life, and survey in rapid succession a considerable part of the peoples that make up Europe's four hundred and forty millions. The composite picture of Europe that one will gain cannot fail to arouse in the depths of the observer's soul not only an awed realization of the greatness of Europe, but a passion to help save that greatness from wreck.

We have helped a little with poultices and lotions, but we have not understood thoroughly enough the

problems that are involved and the principles which must be applied to their solution.

I spent a day with President Mazarik at his country palace near Prague. Mazarik is a mellow and wise philosopher, as well as a great statesman. I said to him that many of us in America felt that we did not understand Europe, and lacking that understanding believed that it would be better for us to keep out of European affairs.

He replied that if America does not understand Europe it is her first duty to acquire that knowledge, and that lack of comprehension was not an adequate excuse for America to withdraw from participation in European activities. To gain such an understanding, he admitted, would be a painful task, but it was nevertheless a necessity for us to make the effort.

He went on to say that material help to Europe alone would be of little value unless it had wise direction. It could not have that unless there is, back of it, sympathetic understanding. When a man is in trouble it is not enough for another to cry over his distress. Tears might show sympathy and understanding, but it is practical assistance that is needed.

Perhaps here is the keynote for America. Too many of us are idly saying, "We do not understand Europe." Some of us are cherishing materialistically the idea of a "Little America," which is great only in the material sense that it covers a continent and em-

braces the greatest number of people ever brought together in such economic strength, without political barriers to hamper the interchange of their commodities. But we cannot selfishly withdraw and declare that Europe's distress is not ours. It is well for us to beware of entangling foreign alliances, but it is not well for us to default in our duty to mankind and resign the leadership which is rightly ours. We cannot evade the moral responsibility which we have created by our entrance into the war and our enunciation of the principles on which the peace was founded.

I have tried to make it clear that the conclusions I have expressed in this volume are not merely personal. They are the essence of a great number of interviews with the responsible men of government, finance and labor in nearly all the countries of Europe. I have conferred with most of the prime ministers and chancellors, with nearly all the finance ministers and with a host of other influential persons.

I might, for example, quote at length the views of the German Chancellor Wirth who, I believe, is an honest, sincere and able man. I could give the context of many interviews with Prime Minister Schober of Austria. I might write of the long and most illuminating exposition of Central European affairs by the brilliant young statesman Benes, the Prime Minister of Czecho-Slovakia. I could give in detail

long interviews with the King of Bulgaria and the officials of his government; with the Premier of Greece; with the Grand Vizier of Turkey; with the highest officials of Jugo-Slavia. I might give the result of the ample opportunity I have had to exchange views with Mr. Balfour, with Lord Robert Cecil, Professor Gilbert Murray, Sir Henry Strakosh and at 10 Downing Street. I could relate the opinions expressed by the Governor of the Bank of England, and the Governors of the Banks of France, Italy and the Netherlands.

I was with the Regent of Hungary, Admiral Horthy, the day before Carl suddenly appeared on the political horizon for probably the last time, in his dash to regain the Crown of Saint Stephen. I found him one of the most interesting personalities I met in Europe, a man curiously resembling in many ways our own brilliant Admiral Bristol, United States High Commissioner at Constantinople. I could give a first hand account that would be extremely interesting of the difficulties that Admiral Bristol has encountered in his relations with the Allies, and I may say that I did venture to express some direct opinions in regard to the Allies' course in the Near East in an interview at 10 Downing Street. I might relate what was said to me by the Chief of State of Poland, the heads of government in Italy, or by some of the responsible ministers of France.

I do not propose, however, to attempt any such transcript reporting of these conversations. It is not possible to quote directly the observations, opinions and conclusions of such men. They have talked to me in confidence and with great freedom. It would be improper and unfair. But the conclusions which I shall present are the composite of those interviews, assorted, weighed and emphasized as soundly as my experience permits me to do.

CHAPTER II

SQUARING CONCLUSIONS WITH ECONOMIC PRINCIPLES

MANY travelers have observed conditions in Europe since the armistice of November, 1918. Their reports and the conclusions and predictions they have made concerning the future of economic events have been almost as varied as the number of observers, though they may have seen the same sights, traveled through the same countries, and indeed have interviewed the same people. These contradictory opinions have by no means come entirely from untrained observers. Many of our travelers who have studied Europe have been shrewd, experienced men, knowing their particular field thoroughly and weighing accurately all of the factors involved. Nevertheless the final conclusions even of experts regarding the general economic future of Europe have varied from buoyant and optimistic belief in early recovery, to black predictions that European civilization is at the edge of an abyss which may carry the world into another epoch paralleling the Dark Ages.

I have given a good deal of thought to the causes of this diversity in the opinions of men who have

studied the same situations. Some of these observers have expressed superficial opinions that were based obviously upon very little sound data. But one must seek a deeper reason than that for the lack of agreement among experienced men, including Europeans against whom no charge of superficiality of knowledge can be laid. It seems to me that this is due to the fact that only a few of them have formed their judgments in the light of clearly understood, fundamental economic principles. Unless they understand these principles, the same set of facts, presented to two men of different temperament will lead them to completely different interpretations of the situation of Europe.

This tendency to form conclusions based on superficial knowledge, or on the over emphasis of a single factor, has not been confined to American observers. There has been as little sound application of economic principles in forming current European opinion as has been displayed by most of our own travelers.

In England, for example, a group of newspapers is engaged in a daily campaign which is vigorously attempting to convince the voters of Great Britain that the extravagance of the existing government is almost the sole cause of the acute economic and industrial disturbance in that country. The increase in ministerial salaries, the bonuses paid to civil servants, the expenditures in Mesopotamia, or any one of a hun-

dred other charges of governmental extravagance, are stated daily as the reason for the idleness of two million men, the overwhelming burden of taxation and the decline in trade.

Another group of English newspapers, alarmed by the decline in British foreign trade, has been publishing for some time interviews with industrial managers. Led by editorial direction they have stated that England can no longer sell abroad the same amount of goods wholly because of the comparatively high rate of exchange of the pound sterling. Their readers are led to believe the false doctrine that a debased currency and a low rate of exchange is the open door to success in international trade. Such examples of wholly erroneous statements, of misplaced emphasis and, in general, of failure to measure conditions by economic principles could be endlessly multiplied.

Before attempting to examine the economic condition of Europe it may be worth while to state some of the main principles on which a sound judgment in regard to the economic future of a nation or a group of nations must be founded. In presenting these economic theories I am aware that I may be stating obvious facts in too primary a way to interest the mature mind. But the four gentlemen chiefly responsible for the Versailles Treaty do not seem to have had the least inkling of these economic principles, or if they had they seem to have gone bravely ahead

regardless of the consequences of neglecting them. Any one with the least familiarity with European conditions is constantly reminded of this, so that I feel that there is sufficient excuse for attempting to present these principles in a simple and direct manner.

The foundation of the simplest of economic judgments demands a certain scientific grasp of economic laws. It has long been my belief that most of the troubles of modern civilization have come from what may be termed economic illiteracy. If the world could be brought to a better knowledge of a few economic truths, the decisions made by individuals, by corporations, or by nations, would be infinitely sounder. Civilization would rest on a firmer basis.

Let us take the problem presented by an individual first and then follow the analogy to the more complicated example presented by national and international affairs. Suppose we want to reach a sound opinion of the economic future of an individual man. With as comparatively simple a problem as this we will fall into error; two minds will reach widely differing conclusions, unless the problem is attacked with some degree of scientific skill.

On the one hand we will need to study the economic necessities of this man. Considering his status in society, what for example will be his requirements for food, clothing, housing and education? On the other hand we must find out what are his present and po-

tential resources. Has he financial means? Are they in the form of liquid capital, or investments on which he may count with varied degrees of certainty for a continued income, or is his capital fixed so that it would be difficult to realize? We must know what he owes and the nature of those obligations and how pressing they are.

We will have to estimate his earning capacity, to know what is his skill, what service he can contribute, and whether or not it is of a character that is likely to be always in demand. We will want to know what his earnings will be when he is fully employed, and whether the general conditions surrounding him are such that full employment is probable. It is important that we should know something of his temperament and of his character. In addition we must know surrounding economic conditions. No matter what the position of the individual may be, he is a part of the larger environment in which he is placed.

This may seem a very obvious statement. But the same general principles, somewhat enlarged to fit a wider and considerably more complicated case, must be applied in determining the economic outlook of a Corporation. We will want to know what is the capital of the corporation and the way in which that capital has been invested; how much of it is liquid, how much in the form of stocks of raw or manufactured material, and how much is in fixed forms of

property. We must find out the amount of the debt of the corporation and its nature. Then we will have to study the type of business in which it is engaged, and form our estimates concerning the character of its management and the employees. We must have facts to determine the extent and nature of the labor supply upon which it can draw. In addition to this information we must investigate the general business situation as it relates to the affairs of this particular corporation.

All this is a comparatively simple matter, and investigations of this sort are being made daily, though with only a fair degree of success, by bankers, merchants and investors.

Now we come to a far more complicated problem, but one that after all is not fundamentally dissimilar from that of determining the position of an individual or of a corporation. In considering Europe the first problem is to gauge the economic outlook of individual nations. But beyond that there is the perilous and complex situation of a whole continent to be studied, a continent made up of some twenty-three nations, each with its political sovereignty, its individual fiscal and currency problems and its tariff boundaries; and we must not forget that each nation is dependent upon some, at least, of the others for important factors of its economic life.

Even by applying to the best of human ability the

soundest of economic laws, we could not predict with certainty the outcome of so involved a social and financial complex as Europe presents to-day. But it is obvious that our conclusions will be of little value unless we are determined to measure our facts by them.

In the preliminary survey of a nation's economic position there are three vital questions that must be answered.

First: What is the nation's food situation? Are its demands supplied by domestic production, or must it largely import in order that its people may live, as is the case with several highly industrialized countries?

Second: What are the facts in regard to the country's foreign trade balance? Is it able to export in amounts sufficient to pay for the necessities that it must import?

Third: What is the condition of the domestic budget? Is the government spending more than it is raising from taxation? Can its expenditures be reduced, and are they likely to be reduced? Can its income be increased, and is that politically probable? How is the deficit made up if there is no immediate way perceivable of balancing the budget?

Let us take up these three enquiries in a little more detail, and see what information is necessary in order to solve the problems involved.

Food supply is obviously an elemental fact. No matter what are the conditions of government, of public economy, of currency, or industry, it underlies them all. In a sense it is more important than all the other factors together. If a country does not produce enough food for its needs, it must import. In order to import it must sell its raw products or manufactured goods to other nations.

We must, then, first examine in some detail what the country's food requirements are compared with its domestic production. If the production within its borders is ample in amount and sufficiently wide in variety, well and good; such a people can stand a vast amount of mismanagement in government, currency and finance and still at least exist. On the other hand, if the domestic production is insufficient, or is so lacking in variety that certain food imports are absolutely essential, we must see if the exports can equal the essential imports in value.

The demand for food is perpetual and insistent. It manifests itself in an acute form at breakfast and it recurs at noon and at evening. There are no days of grace. The supply must be constant, uninterrupted and equal to physical necessity. The insistency of the problem is not always recognized by observers. Through the neglect of this factor unsound conclusions are based on the theory that in time a country's industries can be so improved, or its foreign markets

become so receptive that it will be able to balance its imports and exports. The economists' convenient phrase "in time," however, does not apply to food. It should be kept in mind that not a bushel of wheat, not a pound of sugar, not a carcass of meat can be imported into a country unless in one way or another it is paid for in foreign funds as it crosses the border. Usually that payment is made indirectly by the export of goods. If, for the time being, that is impossible, there are other more or less temporary ways in which it can be made, but it must be provided for with the same regularity that the demand for meals recurs.

The balance created by the export of goods with which to pay for the import of food may be augmented by the earnings of a mercantile marine that performs a service for a foreign country, paid for in its currency. The earnings of an international insurance business, foreign cable tolls and other items of that character fall also into the invisible trade balance. In the case of nations like England, a large income may still be derived from domestically owned foreign investments, or, as in Italy, nationals who are temporarily or permanently living abroad may remit large sums. The expenditure of foreign tourists in some countries forms a substantial item in this invisible trade balance. There may be a considerable investment of foreign capital in a country. As a

temporary expedient, there are other forms of obtaining foreign credit from the floating of Government loans or the sale of corporate securities, down to small temporary mercantile credits granted by foreign exporters.

In normal times before the old world came to an end, the foregoing list would have included the main items entering into the credit side of a nation's foreign trade balance. In this new world about which we now have so much to learn there have developed two other factors that for the time being may become more important than any of those that have been mentioned.

First in importance is the speculative purchase and acquisition of the currency of a nation by foreigners. I do not mean the literal purchase of paper currency to be exported and held by the foreign purchaser, although there are several European examples of that type of transaction which have run into billions. When a country's currency begins to depreciate and appears to be selling materially below its nominal par, there is a tendency to purchase exchange as a speculation. That is, a bank balance is bought in that country in the hope that exchange quotations will later become more nearly normal and it can be resold at a profit.

In a later chapter on Germany I will discuss at greater length the astounding figures which specula-

tion in the German Mark reached. When I say that the total stands somewhere between sixty and eighty billion marks, a figure so bewildering that when it first came to my knowledge it seemed utterly fantastic, it may be recognized how important this factor of foreign exchange speculation has become.

Another factor that was of little importance before the war but which has come to be of great interest in our new world of finance, is what has been aptly termed the flight of capital from a country. When paper currency is thrown in on the debit side of an unbalanced budget and the outlook for the depreciation of the value of a country's currency becomes clear, people who have economic foresight and whose means are liquid endeavor to get their capital out of that country.

Governments have resorted to severe measures to prevent this, but liquid capital has almost the characteristic of liquid mercury in finding some crevice for escape if it feels it is in danger. Sometimes in its confusion and distress it is moved first to one country and then to another. There have been enormously important items which are invisible and immeasurable injected into every country's foreign trade balance representing such a flight of capital. It complicates all economic statistics and leaves paradoxes of international accounts that seem to offer no explanation of how they are balanced.

Let it be remembered, however, that if we could only know all the facts every international trade balance would present as perfect an agreement on the debit and credit side as do the books of a well ordered bank. The smallest item of the international grocery bill, the smallest import from one country into another, must have the means of payment provided in some one of the several ways I have suggested before it can cross the border.

The food problem is not quite so simple as it might seem, when it is defined as merely embracing the question of whether a nation's domestic production of food is equal to its necessities. A country may export certain food products and at the same time insistently demand the import of other varieties. Czecho-Slovakia, for example, has a great excess of sugar but a deficiency of almost every other food requirement. We must therefore study the available market for the country's food exports as well as its necessities for import.

If there is a surplus of food raised, as is the case with the countries of Eastern Europe, we must examine the opportunities for efficient exportation. There may be peculiar difficulties obstructing a free movement of exports which will reduce a potentially large export to nominal figures.

It will not be a reliable guide to take pre-war figures of food requirements. In the old days of

comparatively ample supply, food requirements may have been much larger than a nation needs to-day. Its belt has been drawn in and the experience of seven years of restriction has fixed new standards. On the other hand, pre-war figures of production must be viewed with the same reserve.

It has been sharply demonstrated in some countries that the peasant must have a sufficient inducement if he is to do his utmost. There are notable cases of great districts capable of extensive food production where the amount produced has declined tremendously. This can be traced to various causes. Many of the European governments for example have sought to keep the price of food products down by controlling prices. Several of the countries having a deficient domestic grain supply have made all purchases of foreign grain through the government.

The government has imported wheat, for example, and has paid for it at the gold price in the world's market. In order to alleviate domestic conditions and perhaps to quiet political unrest, the wheat bought at gold rates is sold at a much lower price for paper. By government subsidy the price of bread is kept within the means of the ordinary person. This course has sometimes had a secondary effect, however. The imported grain was sometimes sold at a price that was so low that the grain domestically produced could not compete with it. This artificially depressed price

in some cases has acted severely in discouraging the industry of the peasants and in reducing domestic production.

Another factor that has in many cases had a serious effect on food production has been the discouragement to the peasant which followed the rapidly declining value of the currency in which he was paid. In a nation where inflation has been going on at a headlong pace, a peasant finds that the value of the paper money for which he sold his grain may have shrunk to half of what it was when he disposed of his crop. This has developed a disposition either to produce less, or to hoard what was produced. Naturally, the peasant refuses to part with the fruit of his labor for what he regards as worthless money, or for a currency that is declining rapidly in value. This hoarding of grain has assumed large proportions in Austria and some parts of Russia.

The depreciation of currency has at the same time been a discouragement to planting the new crop. On the whole, however, it must be observed that the peasants have been extremely prosperous. They have been able to pay off their indebtedness in a depreciated currency. They could not spend much and have always had something to sell that was in demand at an ever-increasing price. As a result there are vast amounts of paper currency securely hidden in millions of peasant homes.

Other causes have helped to reduce old-time totals of agricultural production. I would not have anticipated this result from the enforced breaking up of large agricultural holdings into small peasant properties. But I find a great deal of testimony to prove that such a change has, as a rule, been detrimental to production.

The farming of the large estates that existed in Roumania, Hungary and to a lesser degree in Czecho-Slovakia was on the whole efficiently done. The peasants were forced to a considerable degree of activity, the management was intelligent and there was sufficient capital to provide fairly efficient machinery. The methods employed on these great estates from the point of view of agricultural science were probably open to criticism. There was of course an important social and political question involved in these great property holdings. But the first result of cutting them up into small peasant properties has been this lessening of production.

As a rule, the new peasant owner has lacked capital. He finds himself with inefficient machinery and without sufficient livestock. The old proprietors claim that he no longer exerts himself but is satisfied to meet his own food requirements and produce very little beyond that. The pre-war figures showing production are obviously not the standard of Europe's present home produced food supply.

In addition to this decrease in production, the food problem of the various countries is complicated by the astonishing number of obstacles that are interposed between the wants of one people and the overproduction of another. Transportation is one of the most important of these obstacles. It is one of the most obvious factors to be taken into account in considering food problems.

It is true that on the whole the rates of transportation are exceedingly low. Practically all railroads are government owned and the tariffs are fixed by the government. In those countries where the currency has been depreciating, and that includes of course almost every nation in Europe, railroad rates have not advanced as rapidly as currency has declined. Transportation, therefore, has come to be about the cheapest thing in Europe. That situation has almost universally resulted in a deficit in the operation of railroads or other public utilities. In the case of some nations the railway deficit has reached an enormous figure. The rates have been kept so low that as far as railroad transportation is a component in the cost of industrial or agricultural production they constitute practically a subsidy to both. The low rate of passenger fares, too, has led to an enormous increase in travel.

While the rates are depressed service is naturally not efficient. But on the whole there is great im-

provement to be noted in the last two years, and today in European countries the inefficiency of railroad transportation is not a serious handicap to domestic commerce. On the other hand, railroad transportation between certain countries has become almost impossible. Tracks, locomotives and cars are not sufficient to secure a quick and certain movement of produce from one country to another.

An almost insurmountable difficulty has arisen on certain frontiers. The systems of railway transportation were owned by the various pre-war governments. When the Treaty-makers of Versailles redrew the map of Europe they made a sad wreck of the operation of trunk lines of transportation. Take, for example, the situation in the states which constituted the old Austrian Empire. These roads were the property of the old government. When the Empire was cut up into a number of new and quite independent nations, no arrangement for the division of the motive power and rolling stock of the railroads was made. None of the countries concerned knew exactly what proportion it could claim of the total number of cars and locomotives.

The result was disastrous. If a car or locomotive crossed the border from one country to another, it was probable, or rather it was practically certain that it would never be returned. This situation for a time built an effective wall against trade between these new

states. The railroad would not send a carload of grain across the border if the car in which it was carried would never be sent back to the country that owned it. The same situation existed until recently with water craft whose former routes now cross new national boundaries.

Fortunately, an agreement has been reached after long examination and many hearings which solves most of the problems of water-borne commerce so far as they relate to a division of barges and vessels between the different nationalities. The division of railway equipment is making slower progress. There are still some borders where no traffic passes unless it is changed from one car to another. Gradually these defects are being remedied, but for a long time to come certain frontiers will be a handicap to free transportation.

Before leaving the problem of food supply, there are other considerations which may be worth examination. We ought to look somewhat into future possibilities, to see if perhaps a country can augment its own production to any extent. Agriculture may have been neglected because in the old world of free-moving commerce industry offered greater reward. It may be that agricultural methods are backward. With a return to the land and after better machinery and better seed have been introduced we might look forward to increased production.

CHAPTER III

BALANCES AND BUDGETS

WHEN food has once been produced and the peasant has been induced to part with it in exchange for the depreciated paper money of his country, one might hope that outside those limitations a freedom of commercial movement might be anticipated. But even after the grain has been loaded for transport and even after the difficulties of passing intervening national borders have been solved, there still remain great obstacles to the movement of commerce.

There is another vital problem that is perhaps the most fundamental of all. By what means is the prospective customer to pay for the produce? Every nation with deficient food supply must provide an exchange to pay for its food. It can hardly be repeated too often that every importation of food must be paid for, either at once through the exchange of manufactured goods, or indirectly by the creation of credits. These credits are created by investments from abroad, by the exportation of gold, or by some of the invisible means by which a nation's foreign trade is balanced. The people of the country may be prosperous, the banks may be strong and government finances in

order. Nevertheless, that country must have something to send out into the commercial world in order to create the credit for the food that must be paid for in foreign money.

The situation of Switzerland to-day is a good example. Here is a country with a larger percentage of gold behind its currency than is held in the vaults of the Federal Reserve Banks to protect our own bank notes. The government is excellent, the people are well-to-do, but Switzerland must import four-fifths of her food. Her demand for it is incessant and she must find ways for its purchase in terms of foreign credit before the food which is necessary for her very life can cross the border. Formerly her chief means of payment has been the export of luxuries. She has made watches and embroideries and other articles classed as luxuries. The market for luxury goods has become extremely limited, and as a result Switzerland finds herself in a most embarrassing situation. Her financial strength has kept her exchange at a high figure and she therefore offers for the moment an unfavorable market in which to buy. She has been temporarily fortunate perhaps in being the principal financial asylum in Europe towards which the flight of capital from other countries has been directed. For the time being that has been a most important factor in balancing her foreign trade.

One might recite many other minor difficulties in

the path of a free movement of commerce. The old organization has broken down. Merchants can no longer count with some degree of certainty upon the future. They are no longer able to augment their own capital by making bank loans so that the peasant can be paid and the grain moved to a point where the grain merchant can in turn liquidate his obligations. The stream of commerce which once flowed with a placid regularity has become turbulent, obstructed and rocky. Men of business have become involved in innumerable risks.

All commerce must pass through the speculative whirlpool of fluctuating exchanges so that the merchant never knows what the money he contracts to receive to-day will be worth to-morrow. He finds that an indefinite time is consumed in moving his goods. He learns that the credit of his customers can no longer be depended upon, and that consignments of produce cannot be made with the assurance that payment will follow their arrival and distribution.

All future possibilities of relieving the necessity for these foreign credits by better methods of agriculture, and even by an adjustment of industry and food production to make economically isolated countries more independent of outside help, are worth studying. A country, however, may be in a critical position because of the urgency of its needs. If it lacks the means for obtaining foreign credits and faces the necessity for

immediate food imports, the future prospects for increased production cannot be given much weight.

After a thorough examination of a nation's food requirements, its production, and its hope of a satisfactory trade balance, I would next turn to the study of the internal budget. A brief glance will show whether that budget is balanced by taxation, and if not whether the deficit is being made up by loans. If a country spends more than it raises in taxation, the resulting deficit can be met only in two ways. For the time being it may bridge over its difficulty by making Treasury loans for short or long terms. It may be unable to do that, or it may not have the political strength of purpose to attempt it earnestly. If not, there is another road which, in the beginning, seems easy and pleasant but which inevitably leads straight to financial hell. Any country that meets the deficit in its domestic budget by the continued issue of additional paper money, which for the time being has no redemptive relation to gold, has started on an appalling road over which many European nations are now traveling.

In examining the national post-war budget, we are certain to find some items that would be new to our pre-war experience, although there will also be many old friends on the debit side. Large military expenditures are still the order of the day, excepting in Austria and Germany. It makes one's heart sick to ex-

amine the relative expenditures for military and educational establishments in Europe. However, that is an old story and one from which we could draw disheartening conclusions even from our own budget.

Governmental extravagance for civil service is on a new scale of magnitude. The new republican states as a rule seemed unable to cope with civil service problems and in nearly all cases the number of employees, especially on the government-owned railways, has enormously increased. The difficulty of the new governments in cutting down the personnel in government service is especially apparent in Austria. The civil employees of the old Austrian Empire were almost wholly German and were forced back from the dismembered parts of the Empire into Vienna. Nevertheless, they have been kept on the public payroll. They are retained, it is true, at wages that are mere pittances, but out of a population of six and a half millions Austria finds herself with two hundred and sixty thousand civil employees. At present she is politically unable to take the drastic measures that the situation demands. The government would fall if any sweeping reduction were made.

The proportionate advance of railway passenger and freight rates has not kept pace with the advance in expenses. Owing to that fact and to the lack of business the deficit from railway operations in the case of practically all European nations has added an enor-

mous sum to the debit side of their budgets. In time it will be possible of course to meet this, but at present there are serious political difficulties in the way. It raises a storm of public indignation if the government advances freight rates, just as with us an advance by our railroad corporations is bitterly opposed.

Another new item on the debit side of many national budgets has been the cost of the food subsidy. Grain and other food supplies were bought at gold prices in the world markets. They were sold for paper currency at a fraction of the cost to the government. The result was undoubtedly favorable toward immediately quieting social unrest, but it was disastrous to the budget. In most of the countries this drain on the budget has been stopped, but the important contribution that subsidized food supplies have made to budget deficits must be intelligently analyzed.

Another important and novel cause for these deficits is the enormous sums paid to the unemployed. Perhaps no other way was possible. The transition from the activities of a war which became in reality an industrial struggle has resulted in every country in enormous unemployment.

Men could not be left to starve, and nearly every nation has taken on its shoulders the task of supporting idle workmen. This has had an evil effect. The decay of moral fiber which has resulted and the obstacles which it has interposed in the way of bring-

ing about any proper readjustment of wages has in many nations amounted to a social catastrophe.

At the same time the demands upon the Treasury to meet these unemployment doles have wrecked the hopes of many a finance minister. Presumably this item in the budget will sooner or later disappear. A large section of the population of a country cannot go on living permanently on public contributions. For the time being, however, this item has been one of the most difficult with which European treasuries have had to deal.

There are other unusual items in the present financial systems of Europe. In France, the expenditures for reconstruction are enormous. They have been made with the hope of their repayment from German indemnities. The budget is divided into ordinary and extraordinary expenditures with those for reconstruction in the latter division. Some nations have made heavy loans to tide over business enterprises and every belligerent country has heavy interest charges to meet and an inflated pension roll.

It will be seen that the expenses of most European nations at present cannot be taken as a measure of the fixed revenue which the nation must raise. The debit side of these budgets is capable of much readjustment and amendment. Future finance ministers will have need of great political courage. But unquestionably they can work far-reaching reforms and

eventually present far more favorable budgets than those of the current year.

On the other side of the problem presented by national finances we must examine current income. In nearly every country we will find that taxes have been laid with a heavy hand. In Germany, Czecho-Slovakia, Austria and elsewhere capital taxes reaching as high as fifty percent have been imposed. In many countries the income-tax takes from the large owner of capital the greater part of his income. Inheritances are divided between the government and the legatees. Luxury taxes are heavy. Import duties have advanced everywhere on the theory that as much revenue as possible should be raised by this means. But primarily it is desired to make the customs duty so high that practically it will prohibit certain luxury imports.

The effect of heavy taxation is to limit seriously the provision of fresh capital for industrial and commercial enterprises. If the savings of the people are taken by the government they cannot be devoted to fresh undertakings. Consequently business enterprise is checked or prevented everywhere.

While most nations have formulated tax measures which have appeared to be extremely severe, they have not been equally rigid in enforcing the duties of the tax collector. My observation was that Italy was collecting taxes with a firm hand. Her income each month

runs ahead of the anticipated receipts and no one seems to escape easily from the collector.

In Germany, on the other hand, while the tax program is excessively severe, I doubt if it is collected with anything like the rigor that is shown in Italy. The corruption on the part of tax collectors is notorious in some countries—in Poland and Roumania, for example. The result is that the taxpayer evades his obligation and the Treasury suffers.

Italy offers an example of wisely laid taxes. Her luxury tax is heavy and is rigorously enforced, and her customs duties are designed to prevent her people from adding to her adverse trade balance with unnecessary purchases.

It will be seen from the foregoing that present budgets are capable of material reform on the debit side. Some of them might show great increases on the credit side if more severe tax legislation is enacted and if collections are strictly enforced. But until these reforms are effected, most European budgets will fail to balance and every finance minister will be faced with a serious deficit. In many countries it will be with a deficit of appalling size.

Let us now examine what occurs when a nation's expenditures exceed its income from taxation and, being without the political courage or perhaps lacking the credit to make up the deficit by borrowing, the

Treasury begins to print currency to fill the gap in the budget.

If I were an incarnate devil whose sole objective was to bring upon human beings a reign of injustice and misery, and could use only one instrument for that purpose, I should choose a government printing press. With it I could bring about a chain of evil events which would paralyze industry, make a mockery of thrift and effectively undermine morality. It is difficult for any one who has not experienced the evil results that inevitably follow prolonged inflation to comprehend what a diabolical instrument is the currency printing press.

In America, we have seen a little of the evil of inflation, although we have remained squarely upon the gold standard.

The great influx of gold which poured into this country was in itself an inflationary development. Indirectly it did more than inflate our standard of currency. It gave bankers a reserve upon which they could expand credit and thus put into the hands of people a purchasing power that had grown much more rapidly than the amount of goods to be purchased.

The result with us was a period of rising prices and an accompanying advance in wages. It was calculated that the dollar of 1918 would purchase only as much as could be bought with forty-six cents in 1914.

The prudent man who had put money in the savings bank, the head of the family who had made a sacrifice to keep his insurance policy in full force, the investor who had sacrificed present opportunity for expenditure and had saved capital to loan to industry or commerce suffered great injustice. People living on fixed incomes, such as school teachers, civil servants and, for a time, the clerk class, whose incomes were not speedily adjusted to meet the new value of our standard, found themselves laboring under extreme economic disadvantage.

On the other hand, men and corporations who had contracted debts, found themselves able to discharge those obligations with dollars that would purchase less than half the amount of goods which could have been purchased with the dollars when they were borrowed. The market value of fixed forms of investment tended to rise in proportion to the decline in the purchasing price of the dollar. Holders of stocks in corporations found themselves constantly growing rich. Manufacturers who bought raw materials that took considerable time to pass through the industrial process that turned them into manufactured goods, found that the rise in price of the raw material was so rapid that they could sell their goods for perhaps twice what they had anticipated would be their market value. When our inflation ceased and

prices began to drop—in other words, when the value of the dollar began to appreciate—there fell upon society even worse evils.

Prices were so high that buyers held aloof from the markets and commercial stagnation resulted. Wages were high, but men were without work. The manufacturer who bought high-priced raw material found that his product, after a large amount of capital and labor had been expended in producing it, was perhaps worth less than he had paid for the raw material. Merchants experienced unparalleled declines in the value of their stocks, and many men, although observing all the ordinary rules of prudence and business caution, faced ruin as the result of the great receding wave of prices which deflation was causing. We have seen all this happen in our own country, yet we find it difficult to understand the stupendous inflation in Europe.

Our experience in America has been a tame affair compared to what many European peoples have encountered. At the extreme points we depreciated the dollar between the beginning of 1914 and the end of 1919 to forty-six percent of its first value. The purchasing power of krones, marks, leva and lire declined in headlong fashion. Some currencies declined to one percent of their former purchasing value. All the central European currencies fluctuated in their purchasing power so wildly that adequate price re-

adjustments could not possibly keep pace. Markets became economic absurdities.

These fluctuations mark a chapter of financial horrors which is without parallel in the history of human society. They have introduced a period of social injustice, a time of industrial disarrangements, and an epoch in which moral character and the sound virtues of honesty, industry, thrift and provision for the morrow have been rendered valueless. Worse than that, all that has happened is only half the measure of the evils that have flowed from the printing press with the endless stream of paper money. For the time must come when deterioration of the money standard can go no further, when some readjustment toward firm values will be made. Then there will be reënacted another series of injustices, another period of painful readjustments that will be discouraging to enterprise. Because of the blind misunderstanding of the causes there will probably be futile political action by which unscientific means will be sought to remedy evils, the origin of which is obscure to the ordinary mind.

If one were to attempt to make a catalogue of the results of the great war, I believe that on the credit side so few items might be entered that the page would be almost blank. But there is one result that should be of untold value to the future of America. The awakening of all men's minds to the worth of a stable standard of value and an apprehension of the untold

evils that any people must encounter who try to take the apparently simple course of filling the gap in the national budget by the printing of paper money will be a great gain if we have learned the lesson.

I remember in the early days after America had entered the war and when we first came to realize a little of the huge expenditure that was to be involved in our war effort, men holding high positions were disposed to recommend that we should adopt the means of the printing press. I recall a conversation with a member of the cabinet in the fall of 1918, in which he strongly urged that we should meet the government need for funds not by the persistent struggle to sell bonds, which we were then beginning, but by the simple and easy means of printing money.

Another official, one of the highest in the Treasury Department, advocated the same course. Had it been followed the evils that would have come upon us would have multiplied many times those that we have experienced. Such recommendations were made only through economic ignorance. America should study what inflation has meant to Europe and should so fix in its mind the diabolical results of the free printing of paper money that, under no financial stress the Treasury may ever face, will our nation be led into the quagmire of unlimited paper money.

It is evident that even with the rule of three to follow in judging the economic future of European coun-

tries—food supply, foreign trade balances and budgets —it is not an easy thing to arrive at a true picture of conditions. No matter how wise the Treaty-makers might have been, even they could not have foreseen all of the results that have followed the Peace.

CHAPTER IV

INFLATION

An old woman was sitting on the stone sidewalk of a crowded street in Warsaw. She was a haggard old woman, so poorly dressed that she was the personification of Poverty. She was making her living selling newspapers and as I saw her in the dusk of early evening her stock had been pretty well sold out. The unsold papers were lying on the pavement beside her, and would take her some time to dispose of. On the other side was another paper pile quite as high as the remaining newspapers, held down by a stone to prevent its blowing away. The second pile was also fresh from the printing press, but it consisted not of newspapers but of money. The picture of this old woman, with her stack of money, is a poignant memory to me, a bitter illustration of inflation.

There are several countries in Central Europe which might well be called the Lands of Millionaires. It is comparatively easy to be a millionaire, if the units which make up the million become infinitesimally small. That is what has happened, or is happening, in almost the entire group of Central European states.

I doubt if any one has a keen enough imagination to picture fully what inflation really means when it is carried to a point where the unit of value becomes almost valueless. I had supposed that I had a rather lively appreciation of the horrible social injustices, of the topsy-turvydom of life in a community where the printing of money had been practically unlimited. I thought that I knew something of the way in which a wildly fluctuating currency undermines the morals of people, makes a jest of thrift and industry, robs the worker and rewards the speculator. I found, however, that my imagination had fallen far short of the reality, and I have come to believe that no one who has not personally investigated its results can understand in all its ramifications the true meaning of an almost completely debased standard of value.

At its best, in a well-ordered and stable world, our measurements of value have never been scientifically accurate, or even tolerably stable. Society has always been encountering price movements resulting from the shortening or lengthening of our measure of value. The yard of lineal measure was originally the girth of a king, and as kings came and passed with varying girth it was found that some standard of measure less influenced by royal dinners or royal asceticism had to be evolved.

A stable measure of money, however, has always been more difficult, because the fundamental base of

that standard, gold, was subject to fluctuations of the same character, though less in degree than with other commodities. When commercial life grew more complicated there came new elements of instability in our measures of value. We organized banks, and created new means of payment by making loans that turned into bank deposits; we printed bank-notes and issued the printed fiats of governments, calling them legal tender. And so, at best, men's calculations as to the future course of prices were always being upset by the contraction or expansion of our standard of measure.

Any experiences the world has had heretofore in the way of a fluctuating standard of value, however, have been solidity itself in comparison with the result of the activities of treasury printing presses during the war, and particularly since the armistice. At the outbreak of the war England had, in addition to her stock of metallic gold, an issue of 28,933,380 pounds in notes of the Bank of England, and total deposits in the Bank of England of 60,263,733 pounds. On November 30, 1920, there were 125,112,960 pounds in currency notes issued by the government, and 144,160,000 pounds on deposit in the bank.

The currency of France at the outbreak of the war consisted of a little less than six billion francs of the notes of the Bank of France; to-day the total is almost thirty-seven billion francs.

Germany entered the war with two billion marks in notes of the Reichsbank. A new total would now have to be made each week, for the German printing press is turning out notes at a rate as high as four and a half billion per week, and the total in the last month of 1921 reached a hundred billion.

In pre-war days, Poland as it is at present constituted had a circulation of German marks, of Austrian crowns, and of Russian roubles. When the new government was formed, the one piece of machinery in its possession which worked with perfect efficiency was the printing press. It had turned out up to the end of 1921 about one hundred and seventy billion of new Polish marks.

The six and a half million population composing the new Austria now has over one hundred and three billion crowns of paper money.

Italy's pre-war currency of the Bank of Italy totaled 1,556,925,000 lire at the outbreak of the war, and is now 14,326,059,000 lire, although Italy presents the one case in Europe where there has been a marked decrease from the high point of circulation, and her present stock of paper money of the Bank of Italy is 952,906,000 lire below where it stood at the beginning of 1920.

So one might continue the catalog, and include in it almost every nation of the continent of Europe.

I have not mentioned Russia. The currency situa-

tion there would have made Alice in Wonderland gasp. Two Russian roubles used to equal one dollar, or a slight fraction less; to-day a dollar will buy two hundred thousand of the current roubles issued by the Soviet government. I was offered a million Wrangel roubles, while in Constantinople, for one American dollar bill.

There are many aspects from which to view this monstrous creation of paper money. There is an endless chain of social injustices resulting from it. There follows such a breakdown of the virtues of industry, thrift, and forethought for the future, that the result in the way of a deterioration of moral fiber may well class inflation as one of the greatest curses that has ever fallen on mankind.

It has been discovered that the very foundation of the capitalistic order can be attacked by this insidious means of confiscatory taxation, for that is one of the effects of inflation. But more important perhaps than the cruel injustice of property readjustment which inflation necessitates, more important than the dangerous political discovery that the currency printing press is an instrument of taxation which can rob those who have possessed of all their possessions, is the barrier which inflation erects in the way of commercial and industrial relationships. Europe's present plight is not in the main the result of the losses entailed by the war; it is rather the result of the disor-

ganization of the machinery of our modern world for the exchange of goods.

How does it happen that the whole Continent could have been possessed of the madness of printing almost unlimited amounts of paper money? Have finance ministers been blind fools? Have they wholly lost sight of the simplest principles of economics? Has some malign power so distorted and upset the reasoning of governments that they cannot see where the road leads that is paved with paper money? Would not sane and clear-minded men have avoided this evil of evils, into which half the governments of Europe have fallen? Those are questions which naturally arise when one views the economic plight of many European countries.

I have conferred with practically every finance minister in Europe. They are not fools; they are in the main able, clear-sighted, intelligent men. They know to-day, if they did not know two or three years ago, the true nature and extent of the evils that lie in ink and paper, when combined into circulating notes of uncontrolled volume. Then why have they not stopped? Why do they not halt the activities of their presses, reduce expenditure, increase taxation, and balance their budgets? That is the classical advice we have all been giving to these distraught European nations. I have come to see that it is just about as practical as it would be to advise a man afflicted with

insomnia, who had been sleepless for a week, that if he went to bed earlier and slept soundly he would wake up in the morning feeling better.

The finance ministers who have been responsible for the disastrous inflation of currency have had no other course open to them. I am convinced that the same thing would have happened in any community faced with the same circumstances. They could not raise enough money from taxation or from loans to balance their budgets. Their income from all possible sources was less than their necessary expenses. The government must pay its debts to keep from going under, and governments could frequently only pay debts by printing money and issuing it as legal tender.

This is the position in which the Central European governments found themselves after the war. It may be worth while to examine in some detail the financial problem which some of these governments faced. Let us take the situation of Poland.

I have heard Poland described as the comedian in European government finance. Here was a nation of thirty million people, located in a vast territory of great agricultural and natural wealth. It started its existence without debt, and free from any weight of indemnity, or immediate pressure for its portion of the pre-war indebtedness of the old nations from which it was formed. In two years it was utterly bankrupt. To-day it is without credit. It has printed one hun-

dred and seventy billions of Polish marks, and has in hand plans for adding seventy billions to that total. Its currency is beginning to be refused in its own shops for articles of international value. Its own people so discredit the currency that real-estate operations are now officially conducted in dollars.

On its face all this looks like mad finance, a situation in which the Polish artistic temperament had run a government with complete absence of financial common sense.

After studying on the ground the brief history of the new state, I would not harshly condemn the Poles. It is true they were without experience, and that they were an improvised nation, racially united but politically separated for one hundred and fifty years, under the domination of Russia, Austria, and Prussia. They had been refused practically all right to participate in their government through all these years. Without training or tradition for administration they faced problems that would have appalled Alexander Hamilton.

This improvised government, created suddenly without any of the machinery of administration, officered by absolute inexperience, their inexperience further hampered by temperament, had to rule a territory parts of which had been ravaged again and again by war. Vast districts had been swept clean of houses, tools, farm animals and even of population.

A huge agglomeration of various issues of Russian roubles, rapidly declining Austrian crowns, German marks, and other marks issued during the German occupation formed the currency of the country. There was an outstanding issue of notes of the Polish Loan Bank of eight hundred and eighty million marks.

Never did a government face a greater confusion of currencies. Although all parts of the new country were inflamed with the spirit of Polish nationalism, there were jealousies and misunderstandings which made the task of government doubly difficult.

The Poland that was constituted by the Peace Treaty was a country of nebulous borders. On no border was there peace. On the east border there was a threat of destruction; Bolshevist Russia with the fist of the Red Army was knocking at the very gate of Warsaw. It came to within eleven miles of the capital, and there was the gravest danger that Bolshevism would extend its domain to the border of Prussia.

Poland had to have funds for her army, or perish. The Allies urged her to fulfill her destiny as a buffer state to keep back the wave of Bolshevism, but gave her little material help. There seemed nothing to do in the extreme urgency of the moment but brutally to run the printing press, to sell these demand obligations of paper currency for whatever they would bring anywhere munitions could be purchased.

Fortunately the Red Army was forced to retire, but victory in the field had meant defeat in the treasury, and Poland was already bankrupt. Is it to be wondered that after escaping from such a situation, feeling the need of an army on every border, hungry, and needing to import food that had to be purchased with the equivalent of gold, she continued to travel the road of inflation? The tax-collecting machine was wholly untrained in its duties, the population was unused to heavy taxes, and starving government officers plunged into an inevitable riot of bribery because they had to accept bribes if they were to live. A nation beset by all these difficulties was helpless to take any other course. No one could have stopped it.

I went to Poland with the feeling that her financial history was an appropriate theme for comic opera; I left with feelings of profound commiseration for a people who, as it seemed to me, had been inevitably driven down the road of almost lawless currency inflation to national bankruptcy.

Aside from Russia, Poland is the most flagrant offender against the hard maxims of political economy. But in a sympathetic examination of the situation in every one of these Central European powers one finds that there was an element of the inevitable in these tragedies of treasuries. They have not been fools; they have been victims. They are not blind; they are helpless, and one after another they are be-

ing drawn into a vortex, from which they have no means of escape in their own power.

If they are rescued now from complete demoralization of the whole monetary system of exchanges of goods, they will have to have outside help. They will have to create a currency divorced from the government printing press.

It is easier to see how this general process of inflation occurred than it is to understand what it means to human society founded on the capitalistic order when the measure of value almost disappears. There can be no readjustment of the inequalities and injustices that flow from such a crumbling of financial foundations. The suffering is as real and as irreparable as the casualties of war. No one is safe from it, except those who already have nothing. The fruit of industry, prudence, and thrift goes down in a windfall of rottenness.

Consider in detail some of the deplorable effects that follow inflation when the value of a country's unit of currency has been reduced to a tenth or a hundredth of its former purchasing power. Obviously, all people who live on fixed incomes, who had fortunes invested in the soundest securities, have become impoverished. Families that enjoyed large incomes derived from interest paid on corporate or government debts find that the income which once kept them in luxury will no longer buy the simplest necessities. This situ-

ation does not affect the rich man alone. The person of moderate means finds the savings of a lifetime no longer yield an income of any appreciable value. Persons who have lived economical lives, and who have accumulated by constant sacrifice provision for their old age, find that provision no longer sufficient to supply the simplest of human needs. Self-respecting, well-to-do people who have reached an age where their earning capacity has practically ceased, suddenly discover that they are paupers, and that they have to stand in line at public soup kitchens to get the dole of food which will keep them alive.

The entire class of people who have drawn their livelihood from endowed institutions, such as college professors, librarians, curators and so forth, discover that their income cannot be increased because it is derived from fixed investments, and that its purchasing power may have been divided by ten, or by a hundred. The suffering among this class has been most acute. Their ability to render service has disappeared. Whole professions have been automatically wiped out.

The evil does not stop there. Not only are all past savings made valueless, and old financial foundations unstable, but there is no secure ground upon which to start rehabilitation. Future contracts cannot be made with safety. Mills stand idle because it takes time to turn raw products into manufactured goods, and although unemployed workmen may crowd at one

gate with hands outstretched for doles to keep them alive, and customers clamor at another for the goods they wish to purchase, the manufacturer banks the fires, and turns the key in the door. From experience he knows too well the utter insecurity of selling goods for future delivery at a price which, when paid, becomes a mockery to his industry.

If a man holds a mortgage on real estate, his principal may be paid off, but the purchasing value of the total will be less than what a year's interest used to buy. The thrifty person of moderate means who has accumulated savings discovers that his lifetime savings have deteriorated in value to almost nothing. Annuities and life-insurance policies become "scraps of paper." American life-insurance companies have paid the principal of policies in Austria, for example, with a five-dollar bill, that would have cost them the gold equivalent of a thousand dollars in pre-war days. This does not necessarily mean that the insurance company has swindled policy holders. If the insurance company has been forced to invest foreign premiums in foreign securities, as was frequently the case, the securities owned depreciated as rapidly as did the gold value of the policies written. The insurance company gains nothing, even though it pays almost nothing in liquidation of its obligations.

A deteriorating currency is the most fruitful cause of industrial unrest. Wages can be adjusted to the

decreased value of the money in which they are paid, but they are never adjusted with the speed and to the extent that the currency has declined. The constant effort on the part of labor to bring its wages up to a point that will permit a continuance of the old standard of living furnishes the richest ground for industrial disputes.

All business operations become speculations in exchange. Good judgment in regard to business questions ceases to be effective. Men find that the return they get for finished manufactured goods depreciates in value so rapidly that it will not pay for raw material from which to make an equal amount of goods. A business enterprise may make what appears to be large earnings, only to discover in the end that it has lost its capital. Dividend returns that look excessive when translated into current buying power are reduced to almost nothing.

In Vienna I paid a taxicab driver sixty times the amount registered on the meter. When that was translated into gold, the real value of the payment was so small that it was better to keep the cab all day than to take the trouble to dismiss it and later pick up another. I remember riding in cabs in Berlin and finding at the end of a considerable journey that the bill translated into gold values was four cents, although I had paid ten times what the taximeter registered.

Prices cannot be readjusted rapidly enough even ap-

proximately to keep pace with the decline in the currency. Storekeepers find their stocks sold out, and are unable to replace them with the money they have received. Merchants are left hopelessly bewildered as to what course to pursue. When the value of a currency becomes depressed almost to the vanishing point, traders begin to demand other forms of payment, and decline to name prices in local currency. It is at that point that the real bankruptcy of a nation begins. When its output of legal tender paper will no longer be received freely in exchange for goods, some other means of carrying on commerce must be devised.

No matter how much a currency is inflated, no matter how desperately low its value measured in the world's exchanges falls, the memory of its old-time worth remains in the minds of people who are accustomed to its use. They ascribe to it a value which it no longer possesses. In consequence, there are innumerable hoards of almost worthless currency in nearly every country in Europe. The owners feel that they have sold their produce at high prices. They have found the currency efficient in paying off old debts. They may understand little about investments, and so they hoard a pile of paper notes, only to find in the end that in spite of what seemed to be a rapidly growing fortune, the value of their hoard has steadily declined.

Illustrations of this kind could be multiplied inter-

minably. Of all the visitations of evil upon human society as it is now organized, those that follow in the train of unlimited currency inflation have the profoundest effect. It brings on the people of a nation, through every level of society, an endless chain of misery and suffering. And one half of Europe is in the grip of these evils; the other half is trembling on the verge.

CHAPTER V

THE POISON TREATIES OF PARIS

THE hurt which Europe is feeling so poignantly is not the direct wound of the war. Certainly that wound was horribly severe, but in a sense it was a comparatively clean wound and could have been healed in time. The distress that Europe is suffering, a distress that is progressive, the outcome of which no man may predict with assurance, arises less from the direct injury of the war than from the indirect consequences of the Peace. There has been a general dislocation in Europe of the economic organization of life. That is the chief cause of Europe's suffering to-day.

Many of the roots of that suffering run directly into the ground of the various Treaties of Paris which made peace, or attempted to make peace, with all Central Europe from the Mediterranean to the Baltic.

One does not need to be pro-anything to see that these treaties were conceived in hatred and malice. In the minds of their makers they had a background of an awful irreparable injury they had suffered. The enemy, terribly powerful in his late strength,

barbarous in some of his methods of warfare, potentially capable of future reprisal, was for the time being under the heel of the conquerors. It is perhaps not surprising that hatred, retaliation, burning resentment and unfairness were written into them.

When treaties are so made, however, they are not healing documents. Outside of the provision for the League of Nations, there is nothing in the various treaties of Paris that is healing. It is not difficult to see how men were moved to conceive such Treaties. It is very difficult to see, however, how a Continent afflicted with them can recover until they are rewritten; for that they will be rewritten is inevitable. They have set up political situations as unstable as quicksilver. They have drawn national boundary lines that may be erased like pencil marks. They have created economic situations which must be altered, or whole peoples must economically perish.

It does not seem likely that any of these changes will be made by the Allies. Nevertheless, changes are inevitable.

There is an amazing situation surrounding those Treaties. I will make the assertion that there is not a well-informed man in Europe who will wholeheartedly defend them. I mean this sweeping statement literally. Nevertheless, the Treaties stand sacrosanct. They are holy and cannot be altered in a letter. Nobody believes in their wisdom and justice;

and nobody believes in the political possibility of revising them by agreement.

France is universally charged with being the stumbling block in the way of altering the Treaties. The charge is in a measure true but even the most responsible of French statesmen will privately admit that unfairness, unwisdom and injustice are imbedded in them.

France at peace is a curious contrast to France at war. On the battlefield she presented a stubborn resistance against what seemed to be overwhelming forces, a gallant courage in the face of any odds, that won for her the ringing applause of the whole world. Contrasted with that indomitable courage in war is a state of chattering terror in peace. She seems so beset with fear of the future that her mental processes do not register logically.

Demanding from Germany an impossible indemnity she seeks by other means to entangle her to such an extent that payment becomes doubly impossible. Instead of getting much, the Allies are likely to get comparatively little, unless they alter the terms of the indemnity.

With a magnificent steadfastness that awed the world, France held up her hand at Verdun and in the greatest height of spiritual dedication, she said, "They shall not pass." Now in peace, with blindness that is amazing, France says apparently with equal

determination, "They shall pay," and then takes measures which make full payment impossible.

They ought to pay. They ought to pay to the last mark that is possible in reparation of the awful damage done. I went over the whole battle-front soon after the armistice and the blazing indignation that the wanton destruction aroused in my mind makes it comparatively easy for me to understand some of the illogical reasoning of the French mind. No matter how much one may admire France, however—and one of the dearest possessions I have is the bit of red ribbon of the Legion of Honor, which I was proud to have in my buttonhole during every German interview—one cannot remain blind to the harm that France is doing herself, all Europe, and the world.

I know it is quite possible to explain the French state of mind. They have genuine cause for deep apprehension in regard to the future. Germany has nearly double the population of France. If she were permitted a rapid economic rehabilitation, supplied as she is with vast industrial plants which were improved rather than injured by the war, it is quite within the range of possibility that she will some day attack France, under circumstances where France may have to fight the battle alone. The probabilities of the result of such a conflict are not reassuring to the French people.

There is no security to France in the fact that Ger-

many is war-sick. The German people are the most obedient and easily led of all Europeans. They might fight again if ordered to do so.

No matter what the facts may be, there is universal belief in Germany that she has been unjustly dealt with. The Germans believe that they surrendered on the Fourteen Points. The basis of that belief is debatable, although there is much to support the German contention. They hold the view that they were forced to sign a peace which not only did not contain those points but which was in many respects diametrically opposed to their spirit.

Since the close of the war there have been many acts by the Allies, and particularly by France, which it will be difficult for Germany to forget. Viewed by the Germans from their own background, many of these acts may rightly appear unjust, and inevitable provocatives of lasting ill-will. But viewed by the Allies against a background of German war guilt, there is sufficient warrant for them. Nevertheless, the attitude of the Allies is inflaming rather than healing.

When I speak of the Treaties of Paris, I do not mean the single Treaty of Versailles, but rather the whole group of Treaties, and their subsequent developments. Under them, the nation of Poland was extemporized, the Danzig corridor constructed and Upper Silesia divided. The old Hapsburg Empire

was partitioned into numerous states of unsound economic structure and unstable political elements, quite as dangerous and as unlikely of permanence as were the arrangements made in Paris that concerned Roumania, Bulgaria, Albania, Greece and Turkey.

Many maps were drawn in Paris but they did not use indelible ink. National borders were formed that cannot be regarded as permanent by the most optimistic. It may take wars to erase them and to draw them anew, but as they stand they are certainly unstable.

Application of the principle of self-determination as carried out by these Treaties was a most dangerous experiment. Its result has proven to be one of the greatest curses that has fallen upon Europe. That does not mean that self-determination was wrong. But it is now perfectly clear that it was an error to permit self-determination to create a number of new states, each believing itself to be supremely sovereign, without at the same time controlling the relations of these states to each other. That was a calamity as great as war itself. It was within the power of the Treaty-makers of Paris to have so federated these states that the economic impossibilities arising from this unrestrained self-determination would not have been so certain.

Perhaps there was fear that federated states would become dangerous political units. The alternative of

erecting states in which national antagonisms were fanned to white heat and leaving them wholly unrestrained in their relations to each other is proving still more dangerous. It is leading to economic decay and the breakdown of the machinery of interchange by which the industrial populations are supported.

There were political blunders at Paris which have raised disturbances that cannot be composed. Some of these arose in the jealousies and in the cynical lack of trust between the Allies themselves.

England, France and Italy, none of them honestly believing in the open door, set about staking out spheres of influence in Asia Minor. Each had the same object, that of securing special advantages and closing territories to freedom of commercial intercourse. England and France are constitutionally jealous of Italy's obtaining any special advantage, however, and plans for partitioning Asia Minor commercially were hardly drawn before Italy's vigorous action in that field aroused the opposition of her associates.

So the plan was devised of injecting Greece into the situation. The theory was advanced that Turkish rule had been so bad that Greece should be installed in Smyrna and given a free hand to enforce its administration.

Asia Minor is Turkish, with a fringe of Greek population along the Mediterranean water front. The

problem of making the Turks and the Greeks live peacefully together is as difficult as it to make Irishmen and Englishmen agree on political views. The Turk is a fighter and an agriculturalist. The commercial instinct is completely left out of his make-up. Left to itself a Turkish community might starve, because it would lack the ability to exchange its goods efficiently.

The Greek has the commercial instinct in a high degree, and so all through the Turkish Empire the Greek has performed the necessary service of digging the channels for commerce. His commercial honor is not high, and now we know, after a brief experience in Asia Minor, that he has little political administrative ability. Greece had hardly landed on the west shore of Asia Minor before she started inland to subdue the Turk, to extend her political influence and to give play to her racial antagonism. There is no atrocity with which the Turk was ever charged but can be matched in Greek administration and warfare.

The advent of Greece in Asia Minor brought a chain of events that the Allies were not anticipating. The end of the war found the Turk humbled and prepared to accept direction. Immediately after the armistice, a number of Turkish government and military officials came to Admiral Bristol, the American High Commissioner at Constantinople, with a statement signed by a large number of important men, that

if the United States would take a mandate over Turkey they would accept our rule gladly and would turn over their administration and army without ny resistance whatever and with every possible degree of coöperation. If the United States had taken a mandate for all Turkey, it would have met with almost universal Turkish approval. The United States would not have done that had the opportunity been offered, but the Allies were careful not to make the offer. Instead they suggested the impossible political task of a mandate for Armenia.

When the Greeks started inland from Smyrna, something happened that was not anticipated. The nationalistic temper among the Turks blazed up suddenly. The Turks in Asia Minor felt that the government of the Sultan was no longer a government of free action. Constantinople was held in military occupation by the Allies. The Sultan and his government were looked upon by the population of Asia Minor as automatons, with the strings that governed their action in the hands of the Allies.

Believing this, and with a white-heat determination to resist the Greek invasion, they set up a new government at Angora under Mustapha Kemal. Kemal is no ordinary man. His strength had made him dangerous to the Turkish government in the early days of the war, when they tried to dispose of him by sending him to Gallipoli, to defend what they believed was

a lost cause. The success of his defense was so great that the Gallipoli campaign became one of the great Allied tragedies of the war, and Kemal Pasha became a national hero. He found it easy to rally about him, when the Greek invasion started, all the nationalistic sentiment of Asia Minor, and to-day he has a powerful independent government whose seat is at Angora.

If I have appraised rightly the situation in Asia Minor, and my views have been formed on high testimony, the permanency of Greek occupation is impossible. If you put two highly bred bulldogs into a pen together and left them to fight it out, you would have about as humane a situation as you have with Turks and Greeks both attempting to rule in Asia Minor.

The Treaty of Sevres, which was designed to make terms of peace with Turkey, was never ratified by any party to it and has permanently fallen in the waste-basket of European politics.

Venizelos charmed the peace-makers of Paris and they unwisely carved out an empire for Greece. Along the whole northern coast of the Ægean, Macedonia and Thrace were cut away from Jugo-Slavia, Bulgaria and Turkey and were given over to Greek administration.

This has resulted in a monumental failure in political administration. Hundreds of thousands of Turks, Bulgarians and Slavs have been turned into

homeless refugees, and are to-day crowding Belgrade, Sofia and Constantinople.

The territory of the old Turkish Empire that is left in Europe is only enough ground about Constantinople for market gardens. A modern gun on the Greek border could shell Constantinople with ease. The city is cut off from all means of support. For the time being at least, Asia Minor is separated from Constantinople by an economic space that cannot be bridged. There is no commercial communication between this great city and Asia Minor. The countries surrounding the Black Sea are economic deserts. No food comes west through the Dardanelles. Constantinople, its population augmented by three hundred thousand refugee Turks, and by thousands of penniless Russians, must import everything it eats, wears or uses. There is not a manufactory of any kind in the city.

The situation in which the Treaty of Sevres and subsequent acts have left Constantinople is a dangerous threat, not only to the stability of the Near East but to the lives of the one and a half million people of Constantinople who have been left in extreme economic insecurity. The carving up of the Hapsburg Empire has left Austria with its one great city supported by a thin strip of Alpine country. It has been characterized as a nation economically deprived of arms and legs. If that is the way to characterize the economic position of Austria, what is to be said of

Constantinople? It is a head severed from the body.

The Treaty of Sevres, then, established the poor administration of the Greek Government over a number of new possessions; it started a new war in Asia Minor and it broke up the old peaceful arrangements between the Turks and Greeks by which the trading of the latter marketed the produce raised by the Turks. It has created hatreds where there was some basis for coöperation before.

The Treaty of Trianon by which the terms of peace were imposed upon Hungary has been characterized by Lord Newton as "the most disastrous and senseless action for which international statesmen have been responsible."

If there could be a just weighing of war guilt, Hungary would probably have to shoulder no small burden of responsibility. But whatever that responsibility may be, she must have fully expiated it in the horrors of peace.

The revolution which followed the downfall of the Hapsburgs brought to Hungary a government which placed Count Karolyi for a short time in the presidency of an extemporized republic. The Magyar language is a vigorous one but it lacks words to express the contempt in which Karolyi is regarded. His government is called "the preparatory government"—preparatory for Bolshevism. He released Bela Kun

from jail and resigned the government into his hands. Then Hungary suffered Bolshevism directed from Moscow.

This episode has faded into insignificance in their minds in comparison with the suffering the Allies imposed upon the nation when they turned Roumania loose to descend upon the capital and "save Europe from a spread of Bolshevism." If Hungarian testimony can be at all credited, this was an invasion which can never be forgotten nor forgiven. The Bolshevists gathered together the loot of a nation; the Roumanians carried it away. They carried away everything that was movable. An American officer standing with drawn sword at the gate of the Art Museum was all that kept them from looting its treasures. There are thousands of decaying freight cars and hundreds of rusting engines on the side tracks of Roumanian railroads which were looted from Hungary. The only service they have performed was to carry out of Hungary every movable thing of value on which the Roumanians could lay their hands. The Hungarians regard this remedy for Bolshevism dispensed at the hands of the Allies as a cure which was worse than the disease.

All that is but a bit of background for considering the Treaty of Trianon. No weapon was ever more savagely used in the war than was the map-maker's pen in drawing the new Hungary. Hungary had

been a consolidated kingdom for a thousand years, and its boundaries had been delineated by nature. Mountains and rivers formed those boundaries. Few countries in the world had been better outlined by geographical conditions. Most of the people composing it were of related stock. The treaty formed out of the center of the old kingdom a new and little nation. Nearly two-thirds of the territory and the population of old Hungary was carved away; not an old boundary remained. Of all the mutilations of the Great War, this mutilation of the Peace stands out in sharp preëminence.

Let me give here the view of one of the highest of Hungarian officials:

"To the last man Hungary believes that her treatment at the hands of the Allies has been unjust. Hungary was not morally to blame for the war. She was dragged into it against her will. She had long been bound an unwilling partner to Austria. Once war was declared, however, there was no other course open to her as an honorable nation but to go into the war. She could not be a renegade and violate her agreement as Italy had done. She could not wait until she felt she could guess where her best interests lay as Roumania had done. She was forced to fight but she fought without political ambition. She had no designs on any one's territory. She fought with more chivalry than any other nation in this horrible contest of modern warfare.

"When Peace came, the Paris map-makers ruthlessly

mutilated Hungary. They wanted to reward her neighbors. Her territory was taken from her not because there was any racial justification for it or indeed justification of any kind. It was done to satisfy rapacious neighbors whom the Peace Conference wanted to reward for the more or less doubtful help they had rendered the Allies.

"Nearly two-thirds of the old kingdom was given to Czecho-Slovakia, Austria, Jugo-Slavia and Roumania. Paris was not satisfied in giving Hungarian territory to nations that had helped the Allies but handed over a western slice to Austria and cut close to the heart of the old kingdom in giving Transylvania to Roumania.

"The treatment which Hungarians received in these segregated territories made life for them in their old homes impossible. More than three hundred thousand Hungarians have been driven from them to seek refuge in the present mutilated kingdom.

"The Peace Conference declared that minorities living in annexed territories should have fair and just treatment, and then, without waiting to see that their decrees were made effective, turned over the task of making good that guarantee to the League of Nations. The League of Nations has proved an impotent body for enforcing such decrees of justice. Minorities have appealed to it in vain. The Council seldom meets. When it does, there are speeches but not actions. Commissions are sent to investigate but nothing further happens. It not only failed to accomplish the purpose for which it was created, but it prevented individual nations from listening to appeals. They could not interfere because the protection of minorities was the responsibility of the League."

After the terms of the Treaty of Trianon came to be understood, there flamed up in what was left of Hungary white-hot irredentist feeling. Every political thought and motive was molded into a determination that, some day, this mutilated country should regain its old boundaries. On the door of every house in Budapest was nailed a map that showed the boundaries of the old kingdom, within which were the lines of mutilation that the new map-making had drawn. Under this map was the legend in Magyar: "No! Never, never!"

Instead of a healing Peace, the Treaty of Trianon has created a nation with enemies on every border. It has aroused a spirit in that nation which, fanned into flame by universal belief in the utter injustice of the treatment received, may some day erase these new borders with blood.

Instead of Europeanizing the Balkans, the treaty of Paris has come dangerously near Balkanizing Central Europe.

I found the Magyars inclined to illustrate what they felt had happened to them by supposititious examples of political parallels. They said that the taking away of Transylvania and placing it under Roumanian domination would compare to cutting off New England and placing it under the rule of Mexico. The parallel, they thought, would be well drawn if we had lost the war and the enemy had redrawn our map in

a way that gave to enemy powers half our territory and had then clipped off our Pacific Coast and had given it to our associate, Italy, and had transferred Florida to another associate, Serbia. Such illustrations are extreme, of course, but there is foundation enough for them in the way territory of the old Hungarian kingdom was distributed to foe and friend alike.

The economic blindness with which these new frontier lines were drawn was even greater than the political blunders. One finds beet fields on one side of the national line and the factory that should turn the product into sugar on the other side. Lines of transportation are so cut that they cease to be of much economic value. Tariff barriers have divided old friends.

Hungarians in the segregated territories have suffered persecutions that make it impossible for them to continue to live there. Czecho-Slovakia decreed that former Hungarian lands could be bought at 1914 prices and paid for in 1920 depreciated currency. Jugo-Slavia cut up large agricultural tracts that were Hungarian owned on the theory that they wanted small peasant holdings, but no Hungarian peasant could acquire title to a new holding.

The Government in Transylvania is characterized by even English observers as "profoundly unsatisfactory." Under Roumanian rule, Transylvania is

largely governed by secret police, who seem to have taken Bolshevistic Russia as a model. Any native may be brought before the Roumanian secret police and sentenced without legal proceedings. They are flogged and sent to prison without any assigned reason. The Roumanian language has been made compulsory. Land owners are dispossessed and houses are requisitioned on the merest pretext, while the grossest corruption prevails among officials.

There is poison, not healing, in the Treaty of Trianon.

When, at Paris, the new nation of Poland was extemporized, and no guiding forces were created, obvious necessary precautions were neglected in a way that threatens the permanent existence of reconstituted Poland. The Poles were without political experience, for they had been excluded from government for generations. They had to create the machinery for the government of a nation of thirty millions overnight, and the material out of which they had to build the new government was utterly untrained to the responsibilities of government. Poland was left with indistinct borders on every side and with the Red Army of Bolshevism threatening to strike at its heart. It is small wonder that mistakes were made. It would have been impossible to have proceeded without making almost fatal errors. Those mistakes have already bankrupted Poland, perhaps not

irretrievably, for it is a rich country, but for the time being it presents a sorry financial spectacle, and as a political unit it is unstable.

I have said little about the Treaty of Versailles and the treatment of Germany and Austria, or about the claims for reparation, the terms of which are obviously impossible of enforcement.

The contrast between the spirit of the Fourteen Points and the spirit of the Treaty of Versailles is complete. If one were looking for material to support a condemnation of the morals, the politics, the economics and the justice which it evidences, he need not go to enemy sources. Many sweeping condemnations of the Treaty have been printed in England, over the signatures of some of the most eminent British citizens.

To take up the subject thoroughly in a way that would logically analyze the nature of the impositions would form the basis of a whole book rather than one paragraph in a chapter. I have chosen to emphasize some of the other Treaties of Paris rather than the Treaty of Versailles.

There is far more resentment against Germany in the American mind to-day than there is in the British. And it is a sad fact that there is throughout France greater unfriendliness toward England than toward Germany, while in England there is a more critical attitude toward France than toward Germany. Tes-

timony from many sources in each country confirms that view. There is little solidarity among the Allies in their attitude toward the Treaties. They condemn various clauses from different points of view but they do not present a solid front of agreement concerning their wisdom or justice.

There was a moment when the United States could have played a great rôle in shaping the Treaties. At the opening of the Peace Conference, this country had an enormous prestige. We had successfully accomplished a great military effort. The potential possibilities of that effort had great weight in terminating the war. It was on other grounds than that, however, that the extraordinary position we occupied rested. Our pronouncement as to war aims, our declarations in regard to terms of peace, were on a high moral plane and captured the imagination of the people of Europe. Had we steadfastly held to the program we laid down, the history of the world since the armistice would have been a far different affair.

When we entered the war and prosecuted it with vigor, and when we enunciated the principles upon which we believed Peace should be established, we unquestionably assumed responsibilities in regard to Europe. Gradually we resigned that leadership, ignored that responsibility, and withdrew from active participation in post-war developments. All Europe

feels that we made a moral failure, however great our material effort may have been.

My feeling is that the various Peace Treaties that were written at Paris contained much that was unjust and unsound. Magnanimity was wholly lacking. The Treaties were dictated in a spirit of reprisal, revenge and selfishness, and in economic blindness. The evils that flow from those unhappy facts are injuring Europe more seriously than did the war itself.

PART II

ECONOMIC CHAOS

CHAPTER VI

GERMANY AND THE INDEMNITY

In attempting an examination of the economic conditions in the various individual European nations I shall start with Germany. With the exception of Russia which, for the present at least, is off the economic map, Germany is the most populous of European countries. But her future is uncertain, for her economic structure is subject to great disabilities, and she is weighed down under so many burdens that it is difficult to see how her prosperity can be reëstablished. In the solution of her problems other nations are involved to a great degree. The bankruptcy of Germany, the total collapse of the elaborate framework of her financial and economic life might drag down the rest of Europe with it. Certainly France, England, Italy, all of the remaining countries in which disintegration is being at least outwardly checked would be staggered by the blow.

The situation of Germany is perhaps the most dramatic of all the European nations. If Germany falls, the dissolution which has engulfed the Eastern States, Austria, Poland and Russia may sweep gradually from the Vistula to the Rhine, from the Danube to the North

Sea. Already that area of financial instability involves a considerable part of the earth's surface. Can any one believe that it can be held in check at the banks of the Rhine?

Let us look first at the obvious and external conditions that Germany presents to the traveler. The railroad on which you first enter Germany is stamped with the sign manual of poverty. The cars are those that were in use before the war and present the appearance of a self-respecting, clean, but almost pathetically poor individual dressed in clothes of many patches. The original red velvet upholstery of the first class carriages has almost disappeared under reenforcements of jute and cotton duck. The car I was in had three quite different fabrics visible in its upholstery, but the train was on time and the service excellent.

In Germany as elsewhere it had been a summer of severe drought. The fields were not in as bad condition as in southern England. They had yielded an excellent harvest of grain, but the root crops were sadly affected, especially the potato crop upon which so much dependence is placed by German labor. There was evidence of this in the market quotations, potatoes having doubled in value in a few weeks' time.

Even from the train one could see from the factory smoke-stacks that Germany was busy. Unlike any other country in Europe, there was also activity in

the building trade; a great many working men's homes were being constructed in industrial towns.

I was told that at the great Krupp works in Essen six thousand more men were employed than at the outbreak of war, although the number is of course less than it was at the height of the industrial activity during the war. The Krupp plant is perhaps the most notable achievement in the world in its transformation from a forge of Vulcan to a workshop of peace. Every imaginable sort of manufactured article for peace-time use is being turned out. They were making locomotives at the rate of thirty-five a month. Some of them were for the Russian Soviet Government, for which an advance payment had been made through Sweden in gold, and there were to be further payments as the work progressed. Others were being built for the Government of Roumania.

The Krupp works are producing a great variety of agricultural implements, many of which it may be noted are modeled exactly along the lines of those produced by American manufacture. Their activities run through an endless list, embracing typewriters, surgical instruments, safety-razors. Indeed it would be hard to mention any article of this character which is not on their list of production.

In showing an American officer through the plant, one of the Krupp directors, coming to the door of a great shop which had formerly been devoted to

the making of a vast amount of ammunition, threw up his hands and remarked, "Ach Gott, Cream separators!"

The Krupp works, with a keen eye to economic advantage, were built around the mouth of a coal pit, so that their motive power came from coal for which there were no transportation charges. Under the Treaty of Versailles, Germany had to furnish France with a vast amount of coal, and the Reparation Commission demanded that part of it should come from the mine within the Krupp works. The plant is now being run with lignite, shipped in from outside.

The Krupp works, like most of the fully employed factories in Germany, are working eight hours a day. Here, as almost everywhere else in the world, there is complaint of inefficiency as compared with the unit output of pre-war days. Krupp officials state that their men were working at sixty or seventy percent of pre-war efficiency but indicated that the situation was improving.

An American observer could not help being impressed by the extensive and indulgent care that the concern exercised over the welfare of its labor. Indeed a book could be written, and ought to be written, to tell what Germany is doing in that direction at the present time. She is not only engaged in what may be termed welfare work, but also in bridging the gap between labor and the management by coöperative

agreements. Labor is securing a voice in matters concerned with its immediate surroundings and in many other ways the German employer is setting an example that employers in America and elsewhere might well heed.

Among the greatest of Germany's immense industrial establishments is the Allgemeine Electriche Gesellschaft. I am not sufficiently expert to compare this plant with similar electrical industries in America. But an American who had thoroughly inspected these works and who is familiar with our great General Electric Company, told me that the shops were fully up to the mechanical standards of the Schenectady works. In these works labor efficiency is said to be back to ninety percent of the pre-war standard.

After leaving the train, we motored for a considerable distance in Germany. Roads everywhere were in good order and there was evidenced a determination to keep them so by giving the "stitch in time" that we so neglect at home. Towns were clean, parks were surprisingly well kept, and in that respect offered a great contrast to those that we had just left in England, where a combination of drought and neglect had worked sad havoc.

Externally, Berlin does not present a particularly unusual appearance. There are a number of war-crippled beggars asking alms in the streets, but not so many as I had seen in uniform in London shaking

contribution boxes at the passerby. People are not well dressed, but they are not notably shabby. In mid-summer the police were surprisingly down at the heel, but in the autumn most of them had at least parts of new uniforms. The shops offer an ample variety of goods, with prices in striking contrast to those of the English shops. If one wished to buy an article for export, however, the retailer shook his head. Everything that is exported must have a special tax, for the Allies demand as part of the indemnity payment, twenty-six percent on every exported article. German export trade must manufacture so cheaply that it can compete under this handicap.

A superficial observer who made his point of observation the dining room of a first class hotel, or Unter den Linden and Leipzigerstrasse at night, might find it hard to reconcile the evidences of luxurious expenditure with the story of a financially stricken nation. If he asked for an explanation, he would get it in one bitter word, "Schieber," which translated means, profiteer. Germany intended to win the war, and did not handicap her efforts by too close an inspection of individual profits.

Since the war the widely fluctuating value of the mark has made it possible for the fortunate speculator to make far greater profits than the merchant or the manufacturer. Those who have had the luck, or speculative skill, to accumulate profits which have

little or no relation to service rendered spend their money readily, like most people who make easy gains. Consequently, the hotel lobbies, the restaurants, and the night cafés evidence an extravagance that would be most misleading if they were accepted as substantial economic indices.

As a German said to me: "You will see extravagant expenditure not only in Berlin but in almost every European city, including Vienna. But the sights in the expensive restaurants and in the gay night resorts are but the hectic flush on the cheek of the dying patient."

Perhaps the comparison was too picturesque, but it undoubtedly had force. External appearances are interesting and must be given a very considerable weight for they are accurate evidences of the fundamental disease, if they are properly interpreted. The luxury and extravagance that can be seen in these cities is not the result of prosperity but of unsound speculation and profiteering, and, in a sense, of despair of what the next day will bring.

I had ample opportunities to talk with leading figures in the government of the new republic. At the outset I will say that the many interviews which I had with them left me with a feeling of respect for them and of confidence in their integrity. Later I found my opinion of them fully shared by some of the most distinguished statesmen in England and France.

Wirth, the Chancellor, who is in the position that Bismarck once held, is not a spectacular figure but after meeting him you feel assured of his ability and his honesty of purpose. He is a strongly built, middle-aged man, German but not Prussian in appearance. He comes from academic ranks, having for years held the chair of mathematics in one of the German universities. He impressed me as being a man of great courage and he certainly has good economic insight. He faces facts as they are and sees them in an orderly and logical way. While his attitude was courageous, he was certainly not a blind optimist. He wasted no time in discussions of the past and did not complain of the unfairness of the victors. But he had at his fingers' ends the figures and facts of Germany's economic dilemma. He presented them to me honestly and with scientific comprehension of their meaning. What they meant to him was plain. He believed that unless there can be some change in the economic factors governing the situation the financial ruin of Germany is certain.

Next to Herr Wirth, the most important man in the direction of the new republic at the moment is Walther Rathenau. I knew his father twenty years ago when he was building the great organization of the Allgemeine Electriche Gesellschaft and when he was one of the very greatest figures in German industry. His son succeeded to the father's position

and left the chairmanship of the board to become Minister of Reconstruction. The son, however, not only had to his credit a successful business career but has been a thinker and writer upon social affairs and industrial relations in a way that has made him one of the best known men in Germany. His writings upon industrial relations and matters connected with politics and capital place him squarely in the ranks of the radicals. I had read much that he had written and had formed the opinion that he had grown so radical that it must interfere with his administrative ability in practical industrial affairs. I made a good many inquiries in this regard among financiers and others and was surprised to find that even the most conservative bankers regarded Herr Rathenau as one of the ablest, if not the most able, man in Germany. He is a Hebrew and although still a young man, he often talks in a language of parable that brings to mind the imaginative mental qualities of the Hebrew fathers.

As Herr Rathenau knew that I expected to write something of our interview it is therefore not improper for me to attempt to reproduce it. In a way, it is unfair, however, because I cannot reproduce its vigor, its picturesqueness, nor adequately give the sense of vision and prophecy with which it affected my own mind. While I have put it into the form of a direct interview, it is written entirely from memory

and Herr Rathenau should not be held responsible for the words which I attribute to him.

"The greatest difficulty in the way of setting the world right again lies in the deep racial and national prejudices of great masses of people. There are a few people who have international understanding, a few people with minds sufficiently objective to reach just international conclusions. But the minds of the great underlying masses lie solidly frozen by prejudice. It is like some parts of Siberia where the soil in winter is frozen many feet deep and under the summer sun softens on the surface only for a few inches. Underneath there lies immovable solid frozen ground. The propaganda used by everyone in the last seven years has contributed terribly to this freezing of the minds of the masses and it is those frozen minds that offer the great obstacle to getting the world back to orderly coöperation.

"The world believes Germany is guilty, that she caused the war and is responsible for its horrible consequences. If there could only be some sort of a world court that could try the case, where the facts could be sifted and weighed by unprejudiced men and a just verdict rendered! Our sixty million people cannot all be guilty criminals, although a good part of the world seems to think so. Are we, and our children and our children's children, to bear for genera-

tions the blame for what some of our leaders led us into, sometimes against our own protest?

"When President Wilson came to Europe, he enunciated certain principles and drew up a program. He committed the United States to both. Later, the people of the United States said, 'We will not accept it; we are not responsible for the program to which our leader committed us!'

"As matters stand I see little that any one can do for Germany. It is idle to talk of foreign loans,—they would be no permanent benefit to us in the present state of affairs. We can make the first indemnity payments and for some months we can meet the obligations defined by the London conference. But that is all.

"I foresee that Germany is to be the sweatshop of Europe. Our falling mark will make us terrible competitors in the markets of the world. Other nations will erect tariff barriers against us. In doing that they will make it impossible for us to pay. Then the mark will fall further and our competition, so long as the depreciation of the mark goes on more rapidly than the rise in wages, will become more terrible, while our domestic situation will grow worse and worse."

Then Herr Rathenau uttered a prophetic warning. It was not couched in the form of a threat but rather

as a prophecy of possible universal disaster. The thought was by no means new to me; it is a possibility to which I have given a great deal of consideration.

"Let the world beware of presenting to Germany a cup that is too full of misery. The German people naturally are not Bolshevistic; they are indeed most obedient and law-abiding people. Perhaps that has been one of their gravest faults—they have been too docile. But there are limits that even docile Germans cannot endure without some blind writhing towards relief.

"Remember this: for over two thousand years there has been a wavering line stretching from the South to the North and dividing this Continent into Eastern and Western Europe. Western Europe has been the seat of what we call 'advancing civilization.' Out of it has come all that the world has accomplished in the way of modern progress. Eastern Europe is Oriental, Asiatic, barbaric. Time and time again it has thrown its masses against the civilization of the West. It overflowed Greece. It was always a threat against Rome. In modern times it swept westward almost to the doors of Vienna.

"This division line between the East and the West, this real boundary of Asia, in modern times, has rested on the Vistula. Let the world beware that it is not moved from the Vistula to the Rhine, with three hundred millions to the east of the line. Poland

could not stand, nor could the countries of the south. If Germany were to turn to the left, not as far as Bolshevic Communism but far enough so that Bolshevic Communism which is now turned toward the right could be met on some sort of common ground, the two might flow together. Then the line separating the Western Europe of civilized progress from the Eastern Europe of Oriental barbarism would move towards the West with an impetus such as it has never had before in history.

"Germany wants to continue in Western Europe. Every instinct is to be a part of that group of peoples that stand for advancing civilization, but it is conceivable that if her misery becomes too bitter, the seed of radicalism, which may be found almost anywhere in Germany to-day, might grow a fearful crop."

The other German officials whom I met did not seem disposed to discuss the justice of the terms of peace. Germany had met with military defeat and must expect to pay in indemnity all that she could pay. Nor did there seem to be any great amount of hesitation in admitting the disastrous errors of leadership under the Hohenzollerns.

Among financial and industrial leaders, however, I found a somewhat different attitude of mind. Many eminent representatives of finance and industry seemed to believe that Germany had been attacked and the war was a war of defense. They expressed them-

selves in a manner that indicated that they had no doubt on the subject. To an American that attitude seemed utterly grotesque. When I heard these sober, capable and practical men speaking as if it were a matter of undeniable historical record, I was astounded.

But I am certain the conviction that Germany was not the aggressor is widespread. An American educator who had been spending several weeks traveling throughout Germany to learn what was being taught in the public schools in regard to the Great War, told me that the oncoming generation of Germans were being raised to unquestioned belief that Germany had fought a defensive war. They were told that she had not initiated hostilities but had been the victim of excessive outside pressure. It seemed to me the rankest sort of propaganda on which foundations of future war were being solidly laid.

At first I had not the patience to examine the belief of my financial and industrial acquaintances that Germany was the victim and not the aggressor. It was interesting to see how they marshaled the events just before and after the fateful thirtieth of July and how they led themselves to draw the deduction that war had been forced upon Germany.

The formula is simple. In the minds of these men, Russia was the direct cause. They present what purports to be evidence of mobilization of Russian troops

well in advance of German mobilization. They declare that they now have evidence that this program on the part of Russia actually began as far back as March, 1914, when soldiers by train loads began to be moved westwards from Siberia.

I did not find a man in an important position outside of the government who did not bitterly criticize the blatant foolishness of Wilhelm II in the years preceding the war, nor who did not condemn the war lust of the Prussian military party. But undoubtedly men of intelligence and great breadth of experience are firmly convinced that the Russian mobilization was the immediate cause of the war. This is translated to mean that Germany was attacked by Russia and that the war that followed was in defense of the fatherland.

The course of the Emperor in announcing himself some years before the benevolent protector to the Mohammedan world was declared to be one of the conspicuous examples of his absurd egotism. The blindness and general failure of the German foreign policy was conceded, particularly the policy which prevented Russia from controlling Constantinople and thus from obtaining real freedom of access to the seas. It was said that Germany's attempts to restrain Russia in that direction had been unwise and provocative, for if she had given Russia a free hand from the Dardanelles to the Bosphorus there would

have been no war. The Franco-Russian alliance left no other course open but to attack France, it was declared, after Russian mobilization became a fact. By some, the passage through Belgium was regarded as a mistake, by others as an unwelcome necessity. The U-Boat policy came in for a great deal of condemnation and the course which made America's entrance into the war inevitable was laid as a heavy charge against the old German leaders.

The point which an important official advanced as indicating the fundamental cause of the war struck me as interesting.

"Whenever a second son was born into a farmer's family in Germany," he said, "it meant that an addition had been made to the industrial workers. The land was already subdivided into as small holdings as were economical from the point of view of management. The first son might succeed to the father's agricultural status, but succeeding sons had to look for careers in industry. This meant that industrial opportunity had to be developed, that fresh foreign markets must be commanded, that international relations were shaped in the light of commercial expansion. The pressure of population was the force that really caused the war."

I was impressed by the fact that some of these old acquaintances who had spoken English with perfect fluency in pre-war days no longer had their old com-

mand of that language. Not only that, but men who before the war had a wide knowledge of world affairs and an intimate understanding of conditions in other nations, had admittedly grown provincial. They said that for five years they had been shut off almost completely from any reliable understanding of conditions in other countries. Since the armistice they had easier access to the conditions in other countries, but the news that reached them was so impregnated with vindictiveness that it was difficult for them to arrive at trustworthy conclusions.

As I have said, the highest officials of the German Government completely accepted Germany's defeat and its penalties. There was no discussion whatever of their liability to pay a huge indemnity. It seemed to me that they accepted as axiomatic that defeated Germany should have to pay all that she could. But on the question of how much she would be able to pay there was much to be said.

The London Conference fixed the indemnity at one hundred and thirty-two billion gold marks, plus twenty-six percent of the gold value of all exports, in addition to certain payments in kind, the chief of which is the great annual contribution of coal. This is calculated to make a total annual gold payment of three and a quarter to three and a half billion gold marks, or approximately eight hundred million dollars in gold annually.

It is an elemental economic fact that a nation placed as Germany is to-day can only make such a series of payments by creating the credit through exports. This means that she must export a sufficient amount of manufactured goods, for she has very little raw material to export, except what is already commandeered as part of the indemnity payment.

She must first pay for the food imports she needs, since her domestic production of food is not sufficient to maintain the existence of her sixty million people. Next she must pay for the raw material that enters into the industrial cycle by which her manufactured products for export are created. She must further provide the amount necessary to make the yearly payment of three billion two hundred and fifty million to three billion five hundred million in gold, that has been assessed against her. In this discussion I am taking no note of the increased amount that it is provided that Germany must pay in the future, but only of the immediate indemnity requirements.

There has been a great deal of loose thinking about the ability of a nation to continue indemnity payments on so huge a scale. The accomplishment of France in the payment of the two billion dollars of indemnity laid on her after her defeat by Germany in 1870 is frequently used to prove Germany's ability to pay. France made those payments in advance of the dates set in the Treaty, and quickly turned out the Army of

Occupation. Why, it is argued, should not Germany do the same. But the conditions facing France in 1871 and those facing Germany to-day are in no wise comparable. The war had been comparatively short, the material injury was not great, and the loss of life cannot be compared with the terrible slaughter of the Great War. A more significant difference was that the area involved was small. All Europe outside of France and Germany was unaffected and the rest of the world was economically unconcerned.

France paid her indemnity by two means. She held a large amount of foreign investments and credits upon which she could realize. She was also in a position to command fresh credits from a world that was rich enough to grant them. From these two sources her obligation was paid and the slate was cleaned.

The situation that Germany faces is utterly different. She must pay, not a lump sum, but a continuing obligation that, if carried out, will lay a heavy hand upon the lives of her youngest children. She no longer domestically owns any great amount of foreign obligations. Her citizens had investments in the United States amounting to about eight hundred million dollars, but every dollar of theirs that we could uncover we have seized and are retaining to meet the losses that American citizens incurred through German "frightfulness." Her investments in other countries

were likewise confiscated. Her colonial possessions and all the enterprises of the government and of individuals in her colonies have been torn from her. Her profitable merchant marine has been divided among the victors.

She is without the credit which would enable her to incur new foreign obligations on any extensive scale. Her indemnity payments, therefore, measured as they are in gold, or to speak more exactly, in exchange to be provided in the currencies of Paris, London and New York, can only be met by excess of exports over imports. In addition she must provide for her food necessities and pay for her required imports of raw materials. To accomplish this stupendous task, to find these yearly sums of thousands of millions, she will have to develop an enormous export trade.

Germany must market this huge bill of goods in a world whose international trade is demoralized, and to customers whose means of payment have been terribly curtailed and whose only future means of payment must lie in their successful ability also to market goods or produce. She must sell her goods at prices that will successfully compete with the established trade of England, and with the mighty competitive forces for massed production which have been built up in the United States.

She must successfully meet prices quoted by Bel-

gian manufacturers, which will compel her to work at low cost, owing to Belgium's absolute need to export in order to pay her food bill. The same is true of the competition which Germany must meet in Switzerland, in Czecho-Slovakia, in Holland and in Sweden. The industrial establishments of all these nations feel keenly the stimulated competition of German industry. They are erecting customs barriers so that German goods, after they have hurdled the twenty-six percent export duty imposed by the Allies, must encounter the customs' exactions of the governments of her various customers.

The indemnity payment, it must be remembered, must be met, not by German exporters who must primarily create the foreign credits, but by the German Government. To do that the Government must impose and collect sufficient domestic taxes for that purpose. Those taxes are collected in paper marks. They must be sufficient first to meet the ordinary expenses of the Government and then to provide for the huge deficit piled up by the state-owned railroads each month, and for other extraordinary expenditure due to the war.

The German Treasury must provide a sufficient amount of paper marks to purchase, at the current rate of exchange for paper marks, the total of foreign exchange represented by the fixed gold equivalent of

the indemnity. With every decline in the exchange quotation for paper marks the Treasury's need is increased.

The problem presented to the Finance Minister of Germany resolves itself into an attempt to balance a budget in which the most important items on the debit side are of a fluctuating character, increasing with any decline in the exchange value of the mark. In providing for ordinary Government expenditures it is impossible to determine with any degree of certainty any of the items which involve the payment of salaries or wages, or the purchase of goods, for with the falling mark salaries and wages must rise and the cost of goods advance.

This is well illustrated by Germany's experience with her state-owned railroads, which will in this fiscal year, it is estimated, show a loss of nineteen billion marks. Even that figure is only an estimate, and will be increased by the amount that wages have to be increased, or that materials advance because of the falling value of the mark.

Another burden, and naturally it is a very sore one, is the cost of the army of occupation which now consumes fifty billion paper marks a year, and is admitted by every one concerned to be vastly larger than there is any military or political necessity for. The Government will also be required to raise twenty-one billion marks to pay to the domestic producers of coal

for the annual contribution of fuel which must be made to the conquerors.

The German budget for 1921-1922 has therefore items on its debit side that have been doubled since the recent days when the budget was overhauled because of the decline of the mark. If it continues, these items may be doubled again. It is difficult therefore to state what the principal items of that budget are, because they are constantly fluctuating. But it is apparent that after taxes and the income from all other possible sources have been received the deficit will amount to a colossal sum.

How is that deficit to be met? In our preliminary discussion it was pointed out that a government can only meet a deficit in its domestic budget by making loans, or by printing paper currency.

In its attempt to raise taxes, the German Government has gone so far as to lay a fifty percent tax upon all capital. Indeed, in its highest reaches the capital tax goes as high as sixty-five percent. This does not have to all be paid at once, for it would of course be a financial impossibility, and the payments have been extended over fifteen years, with the unpaid balance bearing five percent interest.

With such a burden of taxation it is obvious that even if capital had great confidence in the financial future of Germany, there would be a lack of investment in fresh German obligations. But capital has

no confidence in her prospects, and looks upon the financial future of Germany as abysmal. Therefore the deficit in the budget cannot be met by the sale of fresh Government obligations.

There is thus only one recourse, the printing press, and the furious rate at which that is being run increases month by month.

As I have pointed out, the creation of a circulating medium in such huge amounts can lead a nation in only one direction. Germany is headed towards financial ruin.

I found that there were French political leaders who charged German statesmen with the calculated design of ruining the finances of the new republic in order that it might escape from the bondage of the indemnity. They declare that these German leaders are willing to take the risk of bankrupting Germany, of having Germany repudiate her debt to her own people, in order that she might emerge with such a clean bill of health as a bankruptcy court can give. She would still have her great industrial plants and her population with its skill and industry. They believe that though it might mean political revolution, she would eventually face the world without debt, if the Allies were not able to cope with this scheme of calculated bankruptcy.

German leaders themselves repudiate with the greatest scorn the charge that they were deliberately

conducting Germany into bankruptcy, for the danger of such a course was far too great to contemplate. It would mean the fall of any government that found itself in charge of the ship of state when the financial debacle came, and it would be more than likely to result in the overturn of the republic. Germany would become the battleground between the forces of reaction and the forces of radicalism.

The outcome of the disorders that would follow would mean a generation or more of internal warfare, of political dissolution and of social unrest and upheaval. It might even attack the foundations of the present capitalistic order. It was, they declared, unthinkable that any sane statesman would knowingly take this risk, even to escape from the unbearable burdens of the present.

CHAPTER VII

ENGLAND

WHAT is to be said of the economic outlook of Great Britain?

The most superficial observer could not miss the fact that business conditions in England are at the moment distinctly unsatisfactory. There is a great deal of unemployment. More than a million and a half people are receiving unemployment doles and perhaps one million more are working on short time.

England is at the present time in the midst of an industrial and economic crisis. Her foreign trade, which is vital to her business prosperity, is comparatively stagnant. This has occurred in spite of her commercial experience which is superior to that of any other people and in spite of her genius for foreign trade in which she has been schooled through generations. In the face of the economic difficulties that have resulted from the war, she is still admitted to have the greatest genius in the world for international commerce.

The prestige of England is one of the substantial facts of our modern world. Every one believes in the soundness of English experience and in the ability of

Englishmen to master difficult situations. For more than a century the trade of England has been dominated by a standard of commercial honor that has built up for her industries and her merchants the highest degree of world confidence. Her prestige is so great that I find in considering the economic outlook of England one is disposed to take too much for granted; there is a disinclination to examine fundamentals as one would in other countries. It is easier to assume that England always has stood in the forefront of industrial and commercial nations and that she will always stand there. It seems to be almost a kind of commercial sacrilege to raise any question of the essential security of the economic position of Great Britain.

My admiration for British character, achievement and ability is very great. I have the highest regard for English experience and a firm belief in the sound common sense of the whole English people. I am convinced that if America had a tithe of the knowledge and experience of the English commercial world she would seize the commercial and financial opportunities that are scattered everywhere about her, and place herself rapidly and firmly in the forefront of the world's financial forces. But in spite of the record and prestige of England, I believe the time has come when one should not allow the position which she has occupied and still occupies to close one's eyes to the

necessity of a further examination of the economic basis upon which the future of Great Britain rests.

I have frequently referred to the importance with which I regard the factor of food supply in any just estimate of the economic position of a nation. I have suggested that in making any wise economic forecast of world conditions those nations which have become highly industrialized and which have bred a population far in excess of domestic ability to produce sufficient food, must have special consideration. It is as important to study their food needs, their capacity to produce goods in exchange for raw material and food, and to take into account the conditions in the countries that have been their customers, as it is to analyze the domestic economic position.

England, at the very beginning of the industrial age, assumed the leadership as an industrial nation. She had coal and iron, two of the great corner-stones of industry. But she had much more than that; she had a national genius for industrial work, for industrial organization and for commercial enterprise. From the beginning, since England was first in the field, she securely held a position of supremacy.

Under the stimulation of all her advantages, her population grew with great rapidity, and the numbers employed in industry increased more rapidly than in any other country. Men found that it was easier to obtain the necessities of life by producing in English

workshops the manufactured goods which other nations wanted, than it was to stimulate further the agricultural production of the British Isles. With this industrial prosperity the standard of living improved.

At the beginning of the present century, however, two great industrial competitors were in sight, Germany and America. Germany was showing a genius for industrial development and international trade that compared very favorably indeed with England's. In America, with its vast homogeneous population, certain industries had built up systems of mass production which allowed American manufacturers to compete successfully in a limited number of manufacturing lines in spite of high wages.

England's food problem was becoming serious, and English manufacturers felt themselves forced to resist the demand of labor for higher wages, because higher wages would have threatened England's command of industrial markets. If England was to continue to compete successfully with the growing industrial establishments of Germany, and with a few American manufactories that were securing the advantage that came from mass production on an unexampled scale, she had to keep her wage bill within limits.

She was successful in limiting wages; in a sense almost too successful. She found that she was making an overdraft on the physical future of the race. In many manufacturing towns there had been bred a

race of Englishmen unlike the sturdy native type. Great numbers of men were so restricted in their scale of living that it began to show in their physical stature. Industry did not yield sufficient surplus returns to maintain adequate housing facilities for English workmen, at least the returns were not used for that purpose. The unwholesome living conditions were doubtless reflected in industrial output, as well as in a lowered standard of physique.

England had to provide the foreign credit to pay for huge amounts of food, since English fields yielded not over one hundred days' supply. At least thirty million of the British population had to be fed by imported food, and it was necessary in some way to provide constantly the credits in the international exchanges which would pay for that food supply.

In the main it was paid for in the form of manufactured goods, but England had many other ways to help balance her foreign trade. More than a century of successful commerce had accumulated great investments in foreign enterprises. At the outbreak of the war England held more than four billion pounds in foreign securities, and the interest on these investments helped to augment the credits obtained by the export of manufactures. She was most advantageously placed in respect to fuel. Not only did she have enough for her own use, but she exported endless cargoes of coal. This export movement per-

formed a double economic function; it helped to provide foreign credits with which to pay her food bill, and it furnished an outgoing cargo for her merchant marine. These outgoing cargoes helped to establish the English mercantile marine in its preëminent position. The earnings of shipping also played a most important part in paying for imported food, for English ships carried not only her own goods but a great part of the water-borne commerce of the world.

Financial strength had gone hand in hand with industrial supremacy. England became the great world reservoir of capital, and by all odds the strongest world power in finance. Her earnings were very large, and made an important invisible contribution toward balancing her foreign trade.

Another great advantage which she had in making her food imports was that she was trading in a well-ordered commercial world and was conducting her operations with the shrewdness born of long experience. One might picture England as an immense figure stationed over the Baltic Exchange, holding a gigantic but infinitely delicate set of balances. On one side she weighed with great accuracy the needs of England; on the other the exact output of all the agricultural producing fields of the world. Here centered the nerves of commercial intelligence, providing the most complete information of yield and stocks to a perfect financial organization. The distribution of

produce from anywhere in the world was facilitated from here with ample credit, and commerce moved in orderly fashion. England sat before these chemical balances weighing needs against world-wide stores of supply. She made the market. The price of wheat was not influenced by the opinions of Kansas farmers; it was not made on the Chicago Board of Trade; it was fixed on the Baltic Exchange, and England bought her food supplies as cheaply as was humanly possible.

Those pre-war days were a period of increasing production. England's population grew because the Mississippi Valley was opened, because the plains of the Argentine were brought under cultivation, because Russia and Roumania were steadily more productive until they became of enormous importance in the supply of grain. Whatever rate of progress the industrial expansion of England attained, however rapidly the population of England increased, there were ample food supplies to exchange for the products of her factories.

Even with all these advantages, however, it was not clear sailing in the years just before the war. As I have said, wages were held down to as low a point as employers could keep them. The growing strength of unionism forced advances, but in one of the best organized fields of union labor in England, the Union of Railway Employees, there were one hundred thou-

sand men who were working for one pound a week or less. The mining industry, employing almost a million men, was paying an average wage of about thirty shillings a week. The competition of Germany and the United States was felt with increasing severity. The growth of population everywhere in the world, a growth so rapid that it became the greatest fact in all modern history, was making competition for the world's food supplies more severe with every year.

Then came the war; the whole mechanism of commerce was upset. European grain production was greatly decreased and Russia disappeared from the commercial map of Europe. The war was by no means fought entirely in the trenches; it was a fundamental trial of industrial capacity, and there was unlimited demand for labor. The Government Treasury appeared an inexhaustible source of wealth and wages were advanced over and over again. In spite of hardships, the scale of living was for the time being greatly improved and labor gained a new conception of its rightful share from the profits of industry.

The post-war period found an entirely new scale of wages in force. Not only had wages been advanced, but efficiency had declined. Industry, under the burden of enormously increased taxation, had to go through the trying period of transition from a time when it was employed to its uttermost in the manu-

facture of the munitions of war to the limited market for the productions of peace.

The war had cost England a large part of her foreign investments and many of those she still held were in default. The shorter hours of labor and increased wages added still further to the cost of coal production. The terms of peace forced Germany to supply no small part of the Continental market, which had heretofore been England's, with coal, and that export fell off sharply. Just as coal exports had been advantageous in supplying foreign credits and outgoing cargoes, the decrease in coal exports became a double disadvantage. In a world of disorganized commerce the total of sea-borne commerce greatly decreased. There was further competition for that business, and the income of the British mercantile marine fell from three hundred and fifty million to seventy million pounds, and the net profits to little or nothing.

There was no longer the exact adjustment that had enabled England to buy at the lowest possible price. Russia made no progress toward returning to the position of a producing and exporting nation. The ravages of war had disorganized agriculture everywhere in Europe; farm animals were depleted, and the cutting-up of large landed estates in Poland, Roumania, Czecho-Slovakia and other countries had resulted in decreased production. Innumerable difficulties hampered the free movement of produce.

Higher wages and lower efficiency operated adversely upon England's position as an exporter and manufacturer.

Even if all these difficulties had been cleared away, and if in the English domestic situation there had been not a single loss in those great invisible items which had formerly helped to balance her grocery bill, England would have been face to face with a crisis. After the war, she labored under two great disadvantages. The most important was the economic status of her customers. They wanted everything but could pay for nothing. Germany had been England's best customer on the Continent; Russia had been a great buyer. Other Continental nations had stood at her counter and bought largely because they in turn had been able to export their own goods. But they were no longer able to do so because of their own disorganized markets and because of those barbed-wire entanglements which commerce encountered everywhere on the Continent. There were new difficulties from freshly fanned racial antagonisms, from the new national borders, from disorganized transportation and from hampering Government regulations.

That situation alone would have made a crisis for English exporters, but there was another extremely important difficulty to face. Germany's industrial plant had not been injured by the war; it had been stimulated. Germany no longer has a standing army

of industrially idle men; the whole population is at work. It is laboring under an impelling stimulus to export a huge amount in order to provide the foreign exchange necessary to meet the indemnity requirements and Germany's own food needs.

There is another most important stimulus to German exports, though it is both temporary and economically unsound. It results from the steadily declining value of the mark. That advantage can last only as long as the decline goes on, but while it is in progress every foreign buyer of German goods finds that he has to pay but part of the cost of their production.

He pays in the gold equivalent as measured by international exchanges. The manufacturer's internal costs are met by paper marks. The wages of labor and other costs cannot possibly be adjusted as rapidly as the mark depreciates, and so the German exporter finds himself in a falsely stimulated position of advantage. The products of German industry are carried on State Railroads whose freight rates have not been advanced to keep pace with the cost of operation, and the taxpayer made a contribution last year of seventeen billion marks toward the operating deficit, and that contribution will be larger this year. Because of these conditions Germany has been underselling England in the foreign markets.

So England is facing a new and very trying situation. Her population continues to increase in a some-

what more rapid ratio than in pre-war days. She still raises the grain supply for only a hundred days. Her wages are comparatively high and her labor efficiency low. Unemployment is enormous and the burden of unemployment doles falls upon her Treasury and her taxpayers. Her income from foreign investments, from the mercantile marine and from coal exports is depleted. She faces a world which is economically impotent and she must meet in neutral markets the falsely stimulated advantages of German competition.

In presenting this view to American friends I find the most frequent answer is that I have quite forgotten the extent of the British Empire; that it is substantially self-sustaining. This criticism, I think, is based on a failure to understand that the Colonies of Great Britain from the economic standpoint are alien lands to the mother country.

England must pay for a bushel of wheat produced in Manitoba or in Minnesota by providing foreign exchange. A bale of Australian wool must be paid for in the same way as a bale of Alabama cotton. The British Empire is not an economic unit. Colonial farmers and ranchers cannot be paid for their produce in pounds sterling, but in the exchanges of their own countries, which are as difficult to secure as are the exchanges that pay for the products of the Argentine or the Mississippi Valley. They must be created in

the same way, by the export of English goods or by those invisible items made up from the income on foreign investments, earnings of the merchant marine, or from similar sources.

I am aware that this sober view of the English situation is shared by few Americans. I found that it came as a surprise to people on the Continent. The prestige of England is still so great that it is hard to conceive that in relation to food production she is in almost the same position as Austria. But in England I found a remarkably clear realization of these facts. Some of the most responsible leaders in the political and financial life of England agreed completely with my statement of the basic situation that I have outlined here. Though they are facing it seriously, they are fortunately not hopeless about it. Neither am I.

But as I have pointed out before, of all human problems the food problem is the most insistent. It cannot wait for future readjustments; the international grocery bill is a cash affair. England has great international resources still available and for some time to come she can, metaphorically, live on her fat. English labor is rapidly coming to its senses. It sees that its profits must be in direct relation to the amount it produces and that it must send out into the markets of the world substantially the equivalent of what it must have in the way of food and raw material. The

false stimulation of German export trade may last for some time, but it is a passing phase. There is nothing permanent in the advantage that comes from a depreciated currency. That advantage ceases when the depreciation has struck bottom, or wherever it halts. On the other hand, there comes a corresponding disadvantage when the effort is successfully made to raise the value of the currency.

It is conceivable that many of the domestic difficulties that industry now faces may be cured, or their adverse influence at least greatly reduced. Nevertheless, England must have an orderly world of commerce, a world in which her neighbors are producing and selling, if she is to have customers who can buy her goods. And she must have customers in order to live.

The English problem, therefore, is only partly a domestic one. The fate of England is most intimately related to the economic recovery of the Continent of Europe. There must be substantial and rapid recovery. The terrible embargoes upon trade must disappear. England's customers must be economically rehabilitated and the curable disadvantages at home soon removed. If these changes in the present situation are possible, England may go on in something like her old style, selling goods to the world and buying from the world the food for thirty million people. It is conceivable, however, that these happy develop-

ments may be delayed. If they are too long delayed, I believe that the great tragedy of Europe might still be in the future and that its scene would lie in the British Isles.

CHAPTER VIII

FRANCE

If a board of expert accountants were to undertake an examination of the financial position of the French Government they would have a difficult task to come to an agreement as to her actual status. Some of the results of such an examination could be predicted with certainty. The first one would be that figures, as well as words, may sometimes be used for the purposes of concealment. There is a great variety of opinions among experts in regard to the financial status of the French Government, and quite as great a variety of statistical balances could be drawn from the official figures of French Government finances.

One sometimes sees the statement, for example, that France has substantially balanced her budget. To be quite exact one might quote the report of M. Bokanowski, the reporter-general of the finance commission of the Chamber, presented in November. The budget for 1922 was calculated in great detail. The revenue was estimated at 23,300,000,000 francs, and the expenditures at 24,900,000,000 francs.

If one rested upon that statement it would seem to sustain an optimistic view of the financial posi-

tion of the Government. It is admitted that there are many untouched sources of revenue, and a great deal of uncollected revenue under the present taxes. If the Government can come so near to balancing its budget it would seem to be quite within the range of possibility that very soon French finances could be put upon a sound basis.

Any such deductions would be profoundly misleading. The method of balancing the budget represented by these figures gives a completely false view of the situation. The income of France does not come within 1,600,000,000 francs of equaling her expenditures. Instead, the actual gap between outgo and income is nearer twenty-seven billion francs.

In studying the financial position of France in detail you find yourself in a maze of interrelated figures presented under different headings. There are ordinary budgets and extraordinary budgets, expenditures recoverable from Germany, "Reconstruction Certificates," railroad loans, and an endless complication of huge totals, so that it seems impossible to put the national financial position into a single comprehensive statement. It simplifies matters to concentrate on the increase in the Government's debt, but even a statement showing the growth in France's national debt does not give a true picture of her actual condition, for all the newly created national obligations are not included in it.

France spent in its war effort two hundred and eighty billion francs. These are the official figures covering the period from the first of August, 1914, to the end of June, 1919. The revenue from taxes during that period amounted to sixty billion francs; the entire difference was made up by loans of various kinds. There is now a domestic debt of two hundred and thirty billion francs, and a foreign debt of 35,286,000,000 francs, which ought rightly to be multiplied by translating it into terms of foreign exchange in which it must be paid.

The growth in the French debt since the armistice has been enormous, in spite of the fact that budget statements have approximately seemed to balance.

The total debt of France in the nine months comprised between January thirty-first and September thirtieth, 1921, increased from 230,535,000,000 to 272,842,000,000 francs. There are other items that, in an accurate analysis, would be added to this.

The growth of the debt has been so rapid that it has been found quite impossible to fund it into long-dated obligations. The treasury has outstanding short-term obligations of more than sixty-five billion francs. Most of them mature in not over six months, and none at a later date than one year. This amount alone is twice the total debt of France at the outbreak of the war. It may be recalled that France's pre-war debt

was one of the largest, per capita, in the world, and was so pressing that the principal preoccupation of the treasury was to find some method of funding the rapidly accumulating floating debt.

The board of expert accountants that I have suggested at the beginning of the chapter would reach a conclusion in regard to the obligations of France which would be startling. They would probably summarize it with the statement that France is bankrupt. But their summary, for the present at least, would be wrong.

An accountant's examination of the financial situation of the government made without knowledge of the internal situation in France would make the situation appear as hopelessly critical. The single item of a floating debt of sixty-five billion francs would seem to present a most critical situation, in which the least jar to public confidence would make it impossible for the government to continue. Month by month it must be renewed, and investors must be constantly found who are ready to take new securities to replace those that have matured.

This huge total of floating obligations remains, metaphorically, in the air, since it does not rest on any stable foundation, and it is certain that great additions must be made to it. The honor of France is engaged to pay out within the next three years sixty billion francs more for reparations. On the surface the out-

look appears quite hopeless. Nevertheless, in reality, it is not hopeless.

The French investing public is unique. Ingrained in the nature of the French people is the characteristic of thrift. Probably in no other country in the world could a finance minister feel the slightest assurance that he could maintain a floating debt of sixty-five billion francs, and in addition keep on constantly adding other billions. Conservative, sober-minded bankers in France believe, however, that it can be done. They believe that since nearly all of this sixty-five billion francs is held by investors, the renewal of the obligations which mature month by month can be counted upon by the Government with certainty.

Practically everybody in France is an investor. They are not prepared to take long-term Government obligations at the present time, but they automatically renew these maturing short-term treasury loans, and so keep the market clear of any unabsorbed supply. The public shows such complete ability to purchase these renewals that it is not improbable that they will absorb the heavy future obligations which the Government will undoubtedly have to incur. No one can say how long this will go on, nor predict the time when floating obligations can be funded and the Government feel some security in regard to its financial position. Its financial outlook is bound up in the prospects of indemnity payment. But even if these in-

demnity payments are not made in accordance with the terms which have been agreed, it is possible that the financial structure can be still kept upright.

I do not propose to attempt to unravel the tangled statistics of French finances. Figures could be adduced that would back up any thesis. But the war was won, and perhaps the stabilization of French finance may be accomplished. I would not predict that it will not be, but at the same time we must not be deceived by the assertions, however circumstantial and official they may be, that France has a substantially balanced budget.

The work that has been accomplished in the reconstruction of the devastated districts has been little short of marvelous. France is at work. The total of idle workmen receiving Government aid in the fall of 1921 was only thirty-five thousand. Contrast this with England, where one million six hundred thousand industrial workmen are receiving unemployment doles.

At the end of the war we were told that there were vast agricultural districts in France which might never be restored to agricultural production. The wheat crop of France in 1921, however, was over fifty million centals more than in 1920. (A cental is one hundred pounds.) Her wheat crop in 1921 is 137 percent of the crop in 1920, and 163 percent of the average in the five years 1915-19, inclusive. Her yield of rye showed almost as great improvement. Barley, oats

and corn, however, were not so good. Compared with the preceding years, she added one-eighth to the area given up to beet cultivation. She added 50 percent to her wine production compared with the war period.

In the first nine months of 1921 the food imports of France were materially less than half what they had been in a similar period of the year before. From a value of 9,290,000,000 francs they fell to 4,170,000,000 francs. She reduced her adverse trade balance in respect of food products from 7,488,000,000 to 2,786,000,000 francs. If one is in doubt about statistics which show values calculated in francs in which market prices and rates of exchange may introduce large margins of error, they can turn to the figures in tons. In the first nine months of 1921 France imported 2,774,000 tons of food products, while in the same period of the previous year the figure was 4,842,000 tons.

Figures are tiresome, and not always illuminating, but in this case they lead to an optimistic conclusion, since they reveal the extent of what France has accomplished. In addition to the favorable factors at which we have glanced, she manages to keep an almost perfect balance in the franc value of her total imports and exports. In that respect France compares favorably with all the most important nations in Europe. If she can provide enough food for her population the situation need not become absolutely desperate, what-

ever financial difficulties might develop. With yields such as were produced this year, it is obvious that she can feed herself, and that is an exceedingly important element in estimating her future.

France, however, has one problem for which nothing approximating a permanent solution has yet been found. How can the integrity of her boundaries be permanently guaranteed? For the moment she occupies the rôle of conqueror. She found herself in a position where her voice was most potent in dictating terms of peace.

So far as Germany is concerned, France had two aims that were not compatible. She hoped to crush Germany so that she would be safe for generations from a rehabilitation of German military and economic power. At the same time she wished to impose upon Germany a war indemnity which would approximate France's material loss during the war. She has stubbornly attempted to gain both of these aims, although success in gaining either necessarily means that there is small chance of accomplishing both.

If Germany is so crushed as to be what France would regard as a safe neighbor, she could not possibly pay an indemnity which would meet France's view of what she ought to have. If rehabilitation in Germany is permitted to an extent that would enable her to make the reparation payments to France, Germany would become so industrially predominant that

she might become more dangerous from a military point of view than she has ever been before. For France, if Germany is not crushed, there remains the possibility of substituting an alliance which would promise safety even with a rehabilitated Germany. A necessary part of such a program is to win the United States to its support, and France is beginning to understand how difficult is such a project.

In almost every country in Europe to-day France is charged with being imperialistic. Her ambitions in the Near East have played no small part in creating the present unhappy situation there. She has vigorously tried to make a strong buffer state of Poland, which would preclude any sort of unity of action between Germany and Russia. She has maintained an army in the occupied districts of Germany which her associates believe to be unwarrantably large, and she is keeping up the largest military establishment in the world.

In France any criticism of her attitude as imperialistic is bitterly resented. Her argument that it has been necessary for her to maintain so large an army rests against a background that seems to her convincing.

With every month since the Treaties of Peace were signed further points of friction have risen between France and England. Many people told me that on the part of the French people generally there is less

antagonism toward Germany than toward Great Britain and I am inclined to believe it is approximately true. The fact is clearly emerging that the interests of France and of Great Britain are not parallel. England would like to see Germany restored to her economic strength before the war, for she is her most important Continental customer. In France it is declared that Great Britain holds aloof from the European situation, and continues to play her century-old political game of maintaining a balance of power.

France and England clash in regard to Poland. They are for the moment in sharp controversy over the Near East. Both have endeavored to gain special privileges there, and neither has put all its diplomatic cards upon the table. France has negotiated a separate peace with the Angora Government in Asia Minor. That arrangement was practically concluded without the knowledge of England, and resulted in shocked surprise. The subject is too complicated to enter into here, but some of the features of the Treaty which was signed between France and the Kemalist Government are interesting, because they indicate the extent of France's desire to insert commercial provisions in a Treaty of Peace.

The Treaty conceded the port of Mersina, as well as the use of the Bagdad Railway. It gave France economic preference in Cilicia. All concessions for

port works, water works, railways and other important enterprises are reserved for French capital. France is given an exclusive right to exploit certain petroleum fields. In return, the French Government agrees to facilitate the launching of Kemalist loans through French banks, and binds itself to aid the Turks to recover all territory where a majority of the population is Mussulman.

There are many other examples of a lack of frankness between France and England concerning their commercial ambitions. Bulgaria is under the tutelage of an allied commission, but the various members do not work in harmony. French and Belgian capitalists, with the aid of the French Government representatives at Sofia, almost concluded arrangements for a very large loan for railroad construction. A study of the terms of the loan would open the eyes of any American bond house to undreamed-of possibilities in contracts.

When the fact reached the attention of the British representatives there was a great row, not because the terms were harsh, but because arrangements had been so nearly completed without England being informed. The negotiations were summarily halted. Subsequently English capital offered a loan of twice the amount, but also on terms that included many arrangements besides the mere contract to lend money.

However vigorously France may deny imperialistic

tendencies, there can be no doubt that with her increased colonial possessions she has become a great Empire. France is only second to England, both in area and population of overseas possessions. In area she controls over ten million kilometers, as compared with England's thirty-five million. Politically she dominates the destinies of well over fifty million people in her colonies. Her colonies are scattered over the world, and are in two great groups, Africa and Asia. In North Africa are the colonies of Algeria, Tunis and Morocco with twelve million people. In West Africa there is Senegal, Mauretania, French Sudan, Guinea, the Ivory Coast, Dahomey and Zinder, and in addition Togo, over which France has a mandate. In this group is a population of over twelve and a half millions. In Equatorial Africa she has Gabon, the Middle Congo, Onbanghi-chari and Chad, to which may be added the Cameroons, over which France also has a mandate. This group has a population of eight millions. Then there is the island of Madagascar with a population of three and a half millions.

The Asiatic group includes Indo-China with a population of seventeen and a half millions.

Besides these groups there are detached possessions. In Africa, the Somali Coast and Reunion. In Asia, the French settlements in British India. In the West Indies, St. Pierre, Martinique, Guadeloupe and Guyala.

In Oceania there is New Caledonia, Tahiti and other settlements.

France has ambitious plans for the economic development of these colonies, and high hopes that they will prove of value in helping her solve her commercial problems. Unfortunately the testimony which I have heard from unprejudiced travelers in these far-away but vast colonial territories does not pay glowing tribute to French administration. She will be financially handicapped also in carrying out her plans for the economic development of her colonies.

She would like to build many railroads, to encourage agricultural development, and economically stimulate her colonies in other ways to add to the French national income. But these projects present many difficulties. The colonies will be the home of many a deferred hope.

Discussion of national finances always occasions stormy sessions in the French Chamber, and brings out more criticism from her own people than ever come from the foreign friends of France. There is plainer speaking there, even by members of the government, than is to be found in any of the elaborate presentations of government finances.

M. Bokanowski, general reporter on budgets, said recently: "If further acts of weakness imperil the recovery of the debt due France, and if expenditures recoverable from Germany are not covered, the fiction

of a special budget cannot be indefinitely kept up, and all chance of balancing the budget will be destroyed. It is for the French Government to avert the disastrous consequences of this iniquity. It is the duty of the finance commission to point out its financial effects. This will afford France in her dealings both with Germany and her own Allies new reasons, were any required, for emphatically refusing in future all compromises of a nature to imperil her rights, already considerably diminished."

It was pointed out that the execution of the Treaty of Peace depends upon the maintenance of France's military power, and that no economy in national defense is possible. She demands both the full amount of reparations due her and a full guarantee of her future safety.

Recent budget debates brought out the fact that in spite of a reduction of forty-two thousand in the number of civil servants, there are still one hundred and forty-seven thousand more than in 1914. In that connection it was wisely declared that the Government must learn to resist appeals and lamentations, however eloquent. It has a responsibility toward the nation at large in this matter, since the reduction of the number of civil servants is not only a matter of relieving state budgets, but of increasing national industry by restoring to it elements of production.

France feels that in America we are neglectful of

our international duties, that we ought to form an alliance with England and guarantee her future protection. She believes that we ought to release her war indebtedness to the United States, and that we should take over some of her indemnity claims against Germany, and in return provide her with fresh capital. There seems little probability that the United States will agree to any one of those suggestions, nor is England's foreign policy likely to conform to French desire.

It seems almost impossible for Frenchmen to look at Europe as a whole, to comprehend that the welfare of France is related to the general welfare of Europe. In discussing general European conditions with Frenchmen, in proposing to them any comprehensive program for general European rehabilitation, their point of view is almost always indicated by their declaring:

"But, first I am a Frenchman."

In that sentence, and the point of view it connotes, is an indication of the attitude of mind of a great part of Europe in fact. There is rarely any recognition of the unity of the economic life of Europe. In considering the rehabilitation of Europe the problem is rarely viewed objectively. In France one looks solely from the point of view of being, first, a Frenchman. The German is, first, a German. The Belgian is, first, a Belgian. Unfortunately this nationalistic

point of view is not only usually first, but is generally last also, and forms the only point of view from which comprehensive projects for general welfare are considered.

We must all appreciate the heroism which France displayed in peace as well as in war. But in spite of our admiration for what she has accomplished, and our sympathy for the situation in which she is placed, it must be admitted that France still has before her a gigantic task. The future is still in doubt.

CHAPTER IX

ITALY

Italy has shown greater courage, has been misled by fewer illusions and has made more substantial progress, considering her condition immediately after the war, than any other of the belligerent Continental nations. Such a conclusion would shock most Frenchmen and many Englishmen. It seems to me to be one of the most popular national pastimes in France and England to deprecate the actions of Italy. An opinion of Italy formed on French or English testimony would be misleading.

I am quite ready to admit that Italy is in a desperate situation. A reassuring feature, however, is that her statesmen clearly recognize it, and are not deceiving themselves or their constituents with solacing dreams. Her outlook to-day is far more promising than it was a year ago.

Italy is one of the few nations in Europe that has substantially reduced the issue of paper currency. At the beginning of 1920 she had a note circulation of 19,731,000,000 lire. She has cut that down below 18,000,000,000 lire, a decrease of about ten percent. That figure becomes more impressive when you con-

trast it with the billions of fresh paper notes that are pouring out of the currency printing presses of the Central European countries.

Italy has formulated a tax program with the firmest hand to be found on the Continent. She has done more than that; she has turned her program into an accomplished fact.

The budget speeches of nearly every finance minister in Europe have one note in common. All of them explain that their financial calculations have been upset because government expenditures have proved to be greater than anticipated, and income has proved to be less. The budget expositions by the Italian Minister of Finance form a striking exception to that rule. When Giuseppe de Nava, the Italian Minister of the Treasury, discussed the financial situation of Italy at the end of July, he made some statements that must have seemed to his fellow finance ministers in other countries little short of amazing. The statement for the fiscal year just closed showed a deficit of four billion lire less than the Government had estimated at the beginning of the year. Such a statement is unique in European post-war government finance.

It is true that even with this unanticipated improvement there was still a shocking deficit of more than ten billion lire. Nevertheless, expenditures have been curbed still further, and receipts have run so far ahead of expectations that it seems reasonably certain that

the deficit at the close of the present year will be down nearly to four billion lire. This is bad, but it is over ten billion lire better than the amount the Government estimated last winter.

The main saving in expenditure this year will be in relation to the wheat supply administration. Last year that accounted for more than six billion lire. The Government has been strong enough, aided by a good crop, to put an end to the bread subsidy. The harvest for 1921 was the greatest since 1913. Instead of having to import eighty million bushels of wheat, as was done in 1920, this season's imports should be considerably less than one-half that amount.

On the other hand, the Treasury has had to face some great increases in expenditure. For public works two hundred million lire have been set aside and nearly the same amount will be expended in liquidation of various other government undertakings. New housing schemes will take thirty million lire, expenses for Government employees, special allowances to permit non-commissioned officers to meet the increased cost of living, the provision of extra police service, a program to improve the economic conditions of the clergy, fresh expenditures on public instruction, and additional outlays which the Italian Parliament has voted have added one billion four hundred million lire to the budget. The estimated deficit of fourteen and a quarter billion lire made a year ago for the cur-

rent fiscal year and now reduced to a probable deficit of four billion lire shows that Italy is moving in the right direction, though she still has a long and difficult financial road to travel. To alleviate the most painful and direct consequences of the war, she has had to provide nearly three and a half billion lire for military pensions, and for reconstruction of war-damaged areas in the released and redeemed provinces.

It seemed to me admirable statesmanship when I heard Minister de Nava declare that economy did not mean to his mind a rigid, sterile and systematic denial of all expenditure, but rather an elimination of all outlays for purposes of doubtful utility. He did not include in this the lofty objectives for the future which the State cannot neglect, such as the various forms of public education and instruction.

In arranging the Italian budget, the minimum of emphasis has been placed upon expected indemnity receipts. From the very first, Italy has clearly seen the uncertain character of these payments. On the other hand, these budget figures do not take into account Italy's foreign indebtedness, but the debts incurred during the war are not forgotten in any discussion of the future of Italian finance.

In saying Italy has successfully handled her difficult financial problems, I do not pretend that she has solved them. It is satisfactory to find that her responsible statesmen are not making any attempt to blind the

eyes of Parliament to the grave seriousness of the Treasury's position. There has been a great increase in the public debt of Italy since the war, as has been the case with most of the European countries. If they have had credit they have made new loans. If they lacked credit they printed paper money. The total public debt of Italy, represented by pre-war debts, national loans, Treasury Bonds, and debts to foreign countries amounted on October 31, 1919, to eighty-four billion lire. During the next year it increased to ninety-eight billion lire. At the end of the fiscal year of 1921 it had risen to 106,721,000,000 lire, on which the interest amounts to four and a half billion lire. Comment on these figures, the Finance Minister said, was superfluous. Every one must understand the eloquence of the warning which proceeds from them.

Italy has been able to meet her budget deficits without increasing her circulating notes, but she has had to resort freely to the only other method—the floating of new loans. Her investors have had sufficient confidence in the financial position of the nation to absorb all the Treasury obligations that it was necessary to issue, but this leaves Italy with a floating debt of more than twenty-five billion lire. While deprecating the necessity for fresh loans, her statesmen have seen clearly the far greater danger of bank-note inflation.

"Recourse to the printing of bank notes," the Fi-

nance Minister said, "though it is apparently the easiest way to balance a budget deficit, is a treacherous and dangerous policy." Grasping that truth, the outstanding issue of bank notes has been reduced, during a period in which many other nations were furiously adding to the appalling amounts of paper money they have issued.

I would be prepared, with some reserve, it is true, to take an optimistic view of the future of Italian finance if it were not for the unfavorable balance of trade which the difference between her imports and her exports creates. For many years prior to the war, Italy regularly imported far more than she exported. She had two extraordinarily fruitful sources of invisible income with which to balance her adverse foreign trade. Tourists used to spend a billion lire a year in Italy, when that meant the gold equivalent of a lire practically at par. Her emigrants used to send home another billion lire each year.

To-day, however, the expenditure of tourists is far less than in pre-war days. The mobility of Italian labor which every year used to migrate temporarily into surrounding countries for seasonal work and which flowed in a great body across the Atlantic to both North and South America, has been seriously interfered with. The flow to adjacent countries has ceased. An Alpine Range is less of a barrier than is a shabby Custom House official, drearily examining

passports for the endless visés necessary to permit one to cross the border. Mobility of labor between European nations is a thing of the past.

There are some other situations in Italy more promising than her financial position. She has been vaccinated with Bolshevism and is probably immune from any early attack of that disease. The handling of the uprising of labor which occurred some months ago was restrained and wise. There had been unemployment, and a tendency to reduce wages, considerable real suffering, and a hot-headed desire for change. In Northern Italy an uprising occurred that seemed to be actual Bolshevism.

Labor took possession of many of the factories, turned out the management, and took the control into its own hands. Neither the Government nor the owners fought the movement. It would have been easy to have made the revolution a bloody one. Instead of that, great patience was displayed and a wise restraint which soon earned its reward. The men who had taken possession of the factories were not prepared for their new responsibilities and did not understand what those responsibilities entailed. They were permitted to try the experiment and very promptly reached the conclusion that it was unwise. The factories were handed back in a fortnight, none the worse for the tenancy of labor's brief authority.

The men, however, had learned a great deal in that

short period. They had learned that capital was necessary, that raw material had to be provided and that imported raw material had to be paid for in foreign exchange. They discovered that customers for finished products were not plentiful and that when they were found, they frequently did not have the financial means to pay for what they wanted. Altogether it was a very enlightening experience. The incident was conducted with such good temper all round that when it was concluded there was little hard feeling on anybody's part, and the danger of a Bolshevist uprising, for the time being at least, had been removed.

There is a spirit of mutual understanding to-day between capital and labor in Italy, which is one of the promising signs in the European outlook. It is true the industrial situation is bad. There is a great deal of unemployment, and the numbers of the unemployed are increasing. Wages must be reduced and that is never a process which tends to stimulate cordial relations between employer and employed. On the whole, this difficult situation is being handled with great good sense by employers and with a fine spirit on the part of labor.

If Italy could obtain raw material to keep her factories going, and find customers for her goods, there might be something of an industrial millennium in that country. But these difficulties are almost insurmountable. Her manufacturers must import most of their

raw material and all of their fuel. Her foreign customers are normally in the Near East, and to-day they have little buying ability. So in spite of good intentions and the best relations between capital and labor to be found anywhere in Europe, economic conditions may become so difficult that the present amicable spirit will be replaced by the old hostility. There is ground for real hope, however, in Italy's industrial recovery.

It seemed to me that there must be something back of this fine attitude in industrial affairs, and I was induced to look carefully for its genesis. In truth, all over Europe I had been seeking for something that would indicate the birth of a better spirit, for it seemed obvious to me that without it Europe might perish. The Continent has been called the "Dis-United States of Europe" and such an epithet is fitting. If there was any way of measuring the human hatreds and antagonisms, the cynical disbelief in the good intentions of others, and the evil effects of fallacious doctrines, the total sum of these destructive ideas would be sufficient to account for most of Europe's troubles.

But a search for signs of a regeneration of spirit is disappointing. Nowhere had I found any indication of it until we reached Italy. Italy has historically been the birthplace of many spiritual revivals and I looked forward with keen interest to this growth from Italian soil. I believe that promise is there, though it

has not yet grown into any great movement and might easily be missed even by a careful observer.

There is a movement which is making the writings of Mazzini the Bible of a new spiritual cult. Though it is not yet sufficiently consolidated to be impressive, there are signs of it in so many quarters that it seems to be significantly spontaneous. Italy is ripe for a great moral awakening. I believe it is that background which has made possible the better relations between capital and labor. In any attempt to weigh the various factors that tend toward anything like a cure for Europe's great sickness, I would put the possibility of this regeneration in Italy almost at the head of the list. Perhaps this may sound to some as an illusive and impractical thought. Personally I have not had much experience in weighing the practical value of spiritual tendencies, but I have seen enough of the awful results of a world-wide wave of materialism to come to believe that there is something more important than commercial statistics to be reckoned with in attempting to gauge the future of a nation or a continent. I am, therefore, quite prepared to risk the shrugging of shoulders by "practical men" when I say that there is the germ of something spiritual in Italy that is hopeful.

I met in Florence a man who left me thinking of him, after a few days of acquaintance, as something of a modern Saint Francis. He had none of the

accouterment of that saintly monk, but I believe that he has a good deal of the spirit that made Saint Francis live. There seemed to me to burn in this man the pure flame of a love of justice and of humanity. Roberto Assagioli is his name. A talk with him on a moonlit balcony overlooking the Arno was one of the incidents I shall best remember in this whole European trip. It was in deep contrast to the bitter comment on conditions and life which I have heard from so many people in other countries. He seemed to have a calm and serene understanding of the causes of the troubles of the world, and a sensible apprehension of where materialism is leading the world. He expressed such a cheerful hopefulness that a better road is at hand, if the world will but take it, that his conversation with me was like a profoundly impressive sermon. If I am not mistaken, this man has the sort of human goodness that has characterized other men who have initiated great moral movements which had small and humble beginnings. If I were asked to indicate precisely what he has accomplished, or is proposing to accomplish, any statement that I could make would not be impressive; nevertheless, I was impressed. His attitude toward existing religious movements was not antagonistic, but he was keenly aware of their failure to guide humanity toward a safer road.

This new spiritual development of which I thought I could detect a good many unrelated expressions in

Italy, is not working along the lines of established creeds. It seemed to be an effort to stimulate tolerance, esteem, reciprocal good-will, and to revive the ideal of brotherhood. It seemed to be not only a refreshing belief in the spiritual side of man, but a determination to transfer that spiritual power into a living force. When I left Italy I felt that it might grow in intensity until it lighted the darkness that is spreading over the continent of Europe.

CHAPTER X

AUSTRIA AND THE SUCCESSION STATES

THE breaking up of the Austro-Hungarian Empire was in direct opposition to the economic unity of Europe and was conceived in absolute disregard of economic principles. The Austro-Hungarian Empire embraced fifty-two million people. There had been barriers of racial distinctions; there was government inefficiency and the political suppression of minorities. Nevertheless, an economic federation had been achieved between the various parts of the Empire which had resulted in great material progress.

Americans do not generally appreciate the advance there had been in the old Empire; they are apt to think of Germany as offering the main illustration of industrial development. It is a fact, however, that in the ten years before the war, Austrian industries had increased in exactly the same proportion as the industries of Germany. The freedom of commercial intercourse between fifty-two million people made this development possible, and was indeed the foundation for it.

Perhaps not one in fifty American travelers in Europe before the war was really familiar with the

Hapsburg Empire. Few Americans visited Vienna compared with the number who went to London and Paris. Vienna was the seat of government, and of financial power. It was at the crossroads of commerce, and it carried on a great commercial business. It was Eastern Europe's pleasure garden.

The center of the great industrial development of the Empire, however, was to be found elsewhere. In the main it was in the territory which is now included in Czecho-Slovakia. That country now possesses seventy-two percent of the industries of the old Empire. There was, however, extensive industrial development in Hungary also, not only in Budapest, which had become a splendid modern city, but in other districts of the old Hungarian kingdom.

Austro-Hungary was largely self-supporting, and it was economically progressive. Its industries had been developed with great technical expertness. There was much to criticize in the political administration, although it should not be overlooked that the political problems arising in a state composed of so many antagonistic races were extremely trying. The government ruled by division, rather than by creating political unity. Antagonistic political and racial forces were balanced one against another, and always with the object of maintaining the political supremacy of the Hapsburg régime and the Viennese bureaucracy. Hungary was never closely knit politically to Aus-

tria. The antagonism of the Czechs toward the Germans seemed impossible to harmonize and the Slovenes were another antagonistic racial block.

The Treaty of St. Germaine was a combination of punitive measures against the old ruling political forces, and an effort to give suppressed minorities a degree of political independence. It was completely blind to the economic consequences that would follow the dissolution of so great an Empire without any attempt to maintain some unity in the economic relations of the new political units.

The result has been one of the most disastrous chapters of the Peace. The Hapsburg régime has been adequately punished for its selfishness and unwisdom. The old aristocracy, which had little to recommend it in a modern state, has been destroyed. In this punishment and destruction, however, there was involved the wrecking of a highly organized, inter-dependent economic structure. It is one of the great economic tragedies of history.

The carving up of Austria itself is now a story almost too widely understood to bear repeating. A state was created with only a little more than six million people, and with nearly one-third of that population centered in one city. The territory was largely Alpine, and in anything like its present state of agricultural development was incapable of feeding more than the two million people who were engaged in agri-

culture. Considerably more than two-thirds of the people have really had to be fed by imported food.

The new republic was left with only about one per-cent of the coal deposits of the whole Empire, and its fuel problem was as acute as its food requirements. It was surrounded by hostile governments. These governments were not only hostile, but they were themselves in extreme economic difficulties, and adopted economic policies which were wholly and often quite blindly selfish, and which were as harmful to them as they were embarrassing to their neighbors. As I have pointed out before, the whole scheme of transportation was paralyzed by the new political boundaries. These frontiers became commercial Chinese walls. If cars moved from one state to another, there was no assurance of their return, and consequently they stopped at the border. All the governments surrounding Austria prohibited the export of food because it was not plentiful in their own countries and was invariably badly distributed.

A highly individualistic economic policy became the rule in each country. Supreme sovereignty in the realm of higher international politics has many safety valves, but supreme sovereignty in the realm of economics, when it amounts to supreme national selfishness, is followed by quick and serious reactions. These reactions are paralyzing to the exchange of commodities. They have paralyzed the economic life of the

whole Austrian Empire, and the financial deterioration that followed in its train seriously threatens the entire economic structure which makes the existence of great communities possible.

The situation in Austria immediately became more desperate than in any of the other newly created states. The people faced starvation and actually died from it in considerable numbers. The dislocation of Vienna's economic relation to the old Empire was complete. It is as if the city of Washington, for example, had been suddenly left in the center of a territory that was capable of producing for the time being only food enough for a quarter or less of its inhabitants. The comparison is not at all an adequate one, for Washington is a far smaller city than Vienna, and its population is made up from people who have come from all over America, and who could return in great numbers to their old environment.

The situation in Vienna was quite the opposite. It was difficult for the Viennese to go to another city. And in addition the vast numbers of government officials who had been scattered over the whole Empire were crowded back into Vienna and had to be provided for in some way by the government.

From the very beginning the imperative need for food which had to be purchased in terms of foreign exchange began to create a huge deficit in the national budget. Every imaginable scheme was tried for in-

creasing income from taxation. There is a multiplicity of taxes in Austria such as may be found in no other European country. But the receipts from taxes did not balance the budget by many billions. The old story with which we are by this time familiar was repeated and paper money was poured out to fill the gap between government income and expenses. This deteriorated the value of the money to a degree that was exceeded only in Russia and Poland, and resulted in the complete financial ruin of the whole class of people who had lived on fixed incomes.

The disorganization of economic life which then followed the almost unexampled depreciation of currency and the confiscatory grip of the tax gatherer has been complete. Recognizing the inevitable course that government finances were taking, every one with foresight converted what they could into liquid capital, and under the pressure of self-preservation exported that capital from the country. The banks led this procession, because they had greater facilities and a quicker apprehension of disaster. The flow of capital from Austria has been urged on by the natural panic which arose in the mind of every person who saw the value of the crown sinking with great rapidity.

The successful conduct of business became impossible. Everything was determined by foreign exchange quotations. Fortunes were made in speculation. Businesses appeared to make large earnings,

but while doing that the value of the capital employed deteriorated so rapidly that an appearance of prosperity only temporarily covered complete financial ruin. The usual reckless expenditure by profiteers and speculators gave Vienna the deceptive appearance of luxury and prodigal waste that we have noted elsewhere.

While Austria is in the most critical situation, the other new States which have been constructed from the fragments of the old Empire are facing problems almost as severe. If half the United States were cut up into new political units, and each of these units had developed extreme nationalistic sentiments coupled with racial hatreds, so that they were entirely blind to the need for a unified economic policy, it would be easy to see what demoralization would result. The fifty-two million people who composed the old Hapsburg Empire are suffering from such a blight to-day.

Of the so-called Succession States Czecho-Slovakia is the richest, and in many respects is in the most favorable situation, though that is not equivalent to saying that the outlook in Czecho-Slovakia is bright. With the natural resources and industrial developments of old Austria the Czechs also inherited three million Germans. They are now experiencing some of the political difficulties which they themselves were prominent in causing in the old Empire.

The Germans are resentful and unreasonable from the Czech point of view. But I must say that the per-

sonal observations I was able to make left me with the impression that the Czechs had been scrupulously fair to the Germans in granting them educational facilities, and in other directions also. The Germans had long been the ruling class, however, and had held themselves intellectually superior to the Czechs. Naturally the new relations are strained.

If Czecho-Slovakia had been formed in a period when there were normal conditions in the surrounding nations, it would probably have had little economic trouble. The new state is exceedingly rich in coal, in agricultural productive capacity and in industries. I motored many miles through agricultural districts and there are few, if any, places in Europe that show superior agricultural methods. Nevertheless, the country cannot feed itself, for half its population is industrial, and an important part of its agricultural output is beet sugar, which can really be likened to an industry.

Czecho-Slovakia faces the same difficulty that England does. It is a highly industrialized state which must dispose of its manufactured goods to pay its food bill, and which for the time being lacks customers. Her natural markets are in the Near East, and the general paralysis in the international exchange of goods is severely felt. The importance of establishing an economic federation with their neighbors is clearly perceived in Czecho-Slovakia. There is no more potent force working in that direction than Benes, the Czecho-

Slovakian Minister of Foreign Affairs. He is not optimistic, however, of accomplishing much at an early date.

The southern possessions of the old Empire were lopped off, first by the return to Italy of the provinces which had been her Alsace-Lorraine, and then by cessions to Jugo-Slavia. The Slavs undoubtedly had great cause for complaint against the old Austro-Hungarian administration. They were a severely oppressed minority, though that does not make them highly intelligent rulers over the portion of Austro-Hungary which they now control. Compared with the Austrians, the Slavs are lacking in administrative experience, and speaking broadly of the whole country, in education and in culture. But they have many fine and sturdy qualities, and an intense patriotism. From Serbia and this portion of the old Empire the extensive "Kingdom of the Serbs, Croats and Slovenes" has been created. It is a vital political state, but its triple title illustrates how difficult it is to sink racial causes in a national boundary. Jugo-Slavia is merely the popular name. Their poets for the future will find some metrical difficulties when they undertake to write national songs in which the official state name must be incorporated.

We would regard a considerable part of Jugo-Slavia as a backward country. That portion which was formerly a part of Austria is in sharp contrast to the

more backward parts of the new state. A stranger could almost place the limits of the old Austro-Hungarian Empire by noting the marked difference in prosperity and culture wherever he crosses the old boundaries. The line is certainly easy to discern in Jugo-Slavia or Roumania. In traveling from Belgrade to Budapest it is interesting to observe the old Hungarian town of Subotica, which is now incorporated in the Serb-Croat-Slovene kingdom. It compares to the capital, Belgrade, in a way distinctly unfavorable to the latter. Its buildings are finer, and its whole appearance indicates a higher cultural development.

The Kingdom of the Serbs, Croats and Slovenes, as the very name implies, is not made up of a homogeneous people. It will have some of the same racial difficulties to cope with as had the Hapsburg monarchy, but the material from which the ruling class at Belgrade will be drawn will have less experience, and less education, than was the case at Vienna.

Recently oppressed minorities do not seem to become magnanimous or broad-minded administrators when they become politically dominant. Already there has undoubtedly been serious persecution of Hungarians and Germans. The great number of refugees from the segregated districts are a proof of it. The new kingdom is not a highly developed industrial state, and so it feels the breakdown of the old economic unity less than does Austria or Hungary; but nevertheless

it is suffering severely from that economic change. There might be some chance of economic federation between Jugo-Slavia and Austria, but there is less chance of it between Jugo-Slavia and Hungary, and for the present none at all between Jugo-Slavia and Bulgaria. The bitterness that grew out of the war, and from the ruthless military invasion by Bulgaria, will take a long time to pacify.

I have spoken elsewhere of the savage way in which the political boundaries of Hungary were redrawn. There was no thought of economic consequences when these frontiers were decided. The result is extremely depressing.

I have been familiar with Budapest for twenty years. But again I was impressed with the tremendous material accomplishment which is implied in the creation of such a city as is Budapest, even in its present misfortune. The people who could create such a city have a vitality that will have to be reckoned with in the future.

For the time being the economic situation both of the government and of private business in Hungary is anything but hopeful. One finance minister after another has broken under the strain of attempting to balance the national budget. The present position of government finances is most chaotic, and after an heroic attempt to make the budget balance the fiscal year will result in a huge deficit. It promises to be

far worse than even pessimistic political opposition predicted. The effect is shown in a constantly depreciating currency, and all the terrible train of events that has followed a similar deterioration in other countries. There is far more political and racial antagonism on the borders of the present Hungary than is the case with Austria, and while Hungary is in a much better economic position than Austria, her political situation is precarious.

The spirit of the Hungarian is not broken as is the Austrian's. Austria is completely humbled, and possesses less nationalistic pride than any other country in Europe. Indeed, the decay of her national spirit has gone altogether too far. There has been an almost complete loss of self-confidence, and there is a disposition to exaggerate her difficulties and underrate her resources. Austria needs perhaps more than anything else something that will stimulate her self-respect, revive a spirit of hope, and give her some confidence in the future. She has seen one project after another devised to improve her situation completely fail in execution. She has been examined by so many commissions that she feels like a charity patient daily visited by some new organization which makes charts and compiles statistics, but never gives her the help she needs.

In Hungary there has been no such breakdown of national pride. The Hungarians have gone to the

other extreme. The carving up of the old kingdom has united them as perhaps the people of no other state in Europe are united, in a determination to correct what they believe has been the grossest of injustices.

The Peace settlements have not brought any material gain to the people who formerly constituted the Austro-Hungarian Empire. Some racial and national aspirations have been partially met, but new areas in which political minorities are suppressed have been created. The economic unity of the former Empire has been wholly disrupted; the present effect of that is catastrophic for the new Austria, and great difficulties have been raised in the Succession States.

My own view is hopeful in regard to the possibility of giving economic stability to Austria. Vienna is in a position of great commercial advantage and can go a long way toward supporting itself by the flow of commerce that will pass through the city. She is situated on lines of water and rail transportation which should permanently make her a great center. The very disruption of economic unity in the old Empire has given a new importance to Vienna. It has become an international meeting place. Not all of the direction of affairs that used to proceed from the capital of the Empire will be permanently lost.

The new Austria is not so poverty stricken as some of its own people imagine. There is as much industry

as in Bavaria, and more productive land per head than in Switzerland. There are still large individual capital resources, although most of the movable capital has been exported. Some of it would return if a hopeful outlook could be established, and the Austrians could regain confidence in their own situation.

Nevertheless in Austria are the elements of a great tragedy, and I doubt if it has force enough to avert it without help from the outside. She must have immediate aid to provide food if the catastrophe is to be delayed. Austria, however, cannot continue to live on charity. She needs capital and economic encouragement. The furnishing of capital and the giving of charity doles are incompatible. Business cooperation cannot be mixed with charitable contributions. Austria will probably have to have some new basis for currency, as the old currency now seems hopelessly depreciated. It would be possible to supply that, and at the same time provide some outside direction of her affairs, which Austria is quite ready to accept, and indeed believes to be essential.

The United States with the aid of England could bring about further coöperation by the stronger Continental nations, for they all see the danger of a complete Austrian collapse. If a start was made in establishing a sound currency, it might be possible to bring the Succession States to a realization that some

measure of economic federation which would include Austria is essential to their prosperity.

I have an impression that all Central Europe, and even the wider territory in contact with it, is poised between disaster and the possibility of rapid economic recovery. America could bring into Central Europe a clearer sense of what economic unity means than can come from any other quarter. If Central Europe, and particularly the old Hapsburg Empire, is left to itself the outlook promises further deterioration that may become catastrophic. The interest, coöperation and help of the United States might go a long way toward averting that disaster, which I do not believe is necessarily inevitable. It would seem that our own self-interest, if nothing more, should sharply awaken us to the seriousness of the situation, and should stimulate our imagination to the necessity of judicious assistance.

CHAPTER XI

RUSSIA AND THE NEAR EAST

Russia was one of the few countries in Europe I did not visit. Indeed, it is just twenty years since I have been in that country. A recent visit by a gentleman bearing my name has led to the impression in the minds of a great many people that I was in Russia recently, endeavoring to obtain concessions and establish economic relations. There is no foundation whatever for that belief, nor for connecting the endeavors of the gentleman to whom I refer with any plans of my own.

Nevertheless, I have had considerable experience with Russian affairs. While I was president of The National City Bank there were important branches of that bank established in Petrograd and Moscow. I was an interested observer of the way in which the Bolshevik Government took over those institutions. But until my recent trip, I have never had an opportunity to talk with representatives of the Russian Soviet Government. From them I was able to add to my information regarding the official Soviet attitude. I discussed Russia with perhaps half the foreign ministers of Europe. Some of the great German in-

dustrialists gave me a more detailed impression of present conditions. They believed that by uniting American credit with German industrial capacity it would be possible to begin trading with Russia on a large scale.

While any observations that I can make about Russia are, therefore, second hand, they seem to me to rest on a fairly good basis of fact. Let me begin by stating that the Soviet Government is more firmly seated than we have generally imagined in America. This is not so much due to the political strength of that Government as it is to the extreme weakness of the forces that oppose it. Well-informed people believe that there is no political group in Russia which would prove equal to administering a new government if the Soviet Government were to collapse. It is safe to predict that its fall would lead to a long period of anarchy.

There has been a profound change in the economic aims of the Russian Government. As one of their representatives remarked: "We have not abandoned the theory of communism, but we have come to the conclusion that we tried to inaugurate a communistic society a few centuries too soon."

In practice, at least, the principles of communism are undoubtedly being abandoned.

In Russia at the present time there is a considerable amount of freedom of trade. Stores are being opened and it has become legally possible to buy and sell.

Even agricultural lands can be openly sold. Houses and city buildings may now be purchased, although the land under them still remains the property of the Government. Men are again working for wages. The peasants have been given assurance that their produce will not be confiscated in the future. Instead, they will only have to pay a tax equal to ten percent of everything they raise. The remainder of their crop they will be free to sell in a capitalistic market.

All imports and exports are still controlled by the Soviet. The Government has put banks into operation again and is, in a sense, performing a capitalistic rôle.

Nearly everything I heard on the subject indicated that Bolshevism, as it has been represented by many observers and by the press in the past, is not now as black as it has been painted. On the other hand, the alterations that have occurred in Soviet aims and practice cannot be taken as indicative of a complete change of heart. Communistic propaganda is still being carried on in many countries with Russian aid. Specific denials that this aid is from government sources may be technically true, but it cannot be doubted that the activities of propagandists of Bolshevism are undertaken with Government connivance, at least. I was told on high authority that there are forty newspapers in Italy controlled and directed from Russian Bolshevik sources. I believe there is still a great deal of Bolshevik propaganda going on.

In Constantinople I had extremely interesting conversations with the Near Eastern representative of the Bolshevik Government. He bears a degree of Doctor of Laws from Moscow University and is a Doctor of Philosophy as the result of his training in a German University.

In London I had a similar opportunity to exchange views with M. Krassin, the Soviet commercial representative to England. He is also a highly intelligent man and an experienced industrialist under the old régime. I doubt if he was ever converted to communism, although he certainly said nothing that could be quoted as remotely admitting that. I simply mean that he impressed me as too sensible a business man to have ever given his adherence to the original principles of Bolshevism.

It would perhaps not be fair for me to quote my conversations with these official representatives of the Soviet Government. I met other men, however, who were not officially connected with the Government though they adhered to the Soviet system, as well as men like General Wrangel who were violently opposed to it. I will try to reproduce the substance of one conversation with a Bolshevist adherent which seemed to me enlightening.

The conversation started with the statement that Russians, and the Russian Government, cannot understand the basis for the American policy of noninter-

course. Whatever differences of opinion there might be as to the wisdom of the communistic experiment, the present Government of Russia is an accomplished fact, and our attitude seemed inexplicable.

I said that I would try to give what I believed to be a common opinion in America. While I did not wholly agree with this attitude myself, I believed that it was a fair statement of what a large section of our public thought and that it was responsible for the policy of commercial nonintercourse. There was a general belief, I told him, that the Russian Empire had been stolen by a handful of men. At their head was a man of great ability, high motives and fanatical adherence to an impossible economic theory. There were perhaps others associated with him in the Government who had high ideals, but in the main the Government was composed of a group of men who were the social offscouring of the world. Men who were utterly without character or good purpose had been placed in positions of great power.

The American idea in that the aim of these men had been power; its achievement had maddened them. They had conducted a revolution by the most atrocious methods ever known in history. They had assassinated practically a whole class. They had not offered protection, justice or equity to anyone. They had inaugurated a mad economic program, not because they believed that it was workable, but because

it offered opportunity for revolution and loot wherever it could be extended. They had debauched the whole economic life of an Empire, broken down the machinery of commerce, and conducted one hundred and fifty million people into a situation of barbarous want.

They had used every means and the greatest ingenuity to breed revolution throughout the world. They had sent agents to propagate disorder everywhere and had proven themselves the enemy of organized society. Their experiment as it had been conducted had nothing in it that promised good and a great deal that was evil.

A curtain had been drawn over the whole scene of this mad experiment. There was no freedom of ingress, and the few people who were permitted interior glimpses of Russia were not permitted to see the true state of affairs. Promises made by the Government had not been kept and the situation wholly lacked the foundation of mutual confidence which was necessary for dealings with other nations. There was no belief in the economic sanity and moral trustworthiness of the Government. It was upon views of this nature that the policy of nonintercourse rested.

The reply to the reasons I had given for our attitude was ingenious if it was not wholly convincing. Revolutions have never been conducted with kid gloves, I was told. It is inherent in a revolution which

fundamentally overturns both the political and social order that there must for a time be cruelties and injustices. He admitted that there was such a period during the earlier months of the installation of the Bolshevik Government.

The new Government had found itself beset by great dangers from within and without. Those who would overthrow it at home had to be dealt with summarily. In addition to civil war it faced war upon every border. The attacks of its neighbors were aided by nations that were nominally at peace with Russia but who were allying themselves with the nations that were actually at war. All commercial relations with the outside world were cut off. The Government was fighting for its life, and just as the great powers when they were fighting for their lives used poison gas, so the Soviet used the poison gas of propaganda. They regarded it as a military weapon and struck with it at the most vulnerable points.

The charge that the Government had been stolen and that the men who were conducting it did not represent the will of the governed was declared to be false. Russia is almost wholly a land of peasants and the one great demand of the peasant was for land ownership. His land hunger had been satisfied. It was a complete misapprehension of the situation to believe the peasant could be rallied to the support of a reactionary movement which might take away from

him the land titles he had acquired under the Soviet Government. The charge that had been made that it was a government of renegade Jews was likewise false. The government is in the hands of eighteen Commissars and only one of them is a Jew. There were Jews in the administrative machinery, but they were there because they were the ablest persons who could be found for administrative tasks.

The Government, he said, was the most directly responsive to the people of any government in Europe, because it has to renew its touch with the people by elections that occur every six months. Economic conditions had become extremely severe. Mistakes had been made and one of the greatest of them proved to be the requisitioning of grain from peasants. This resulted in a decrease in production and when there were added great difficulties of transportation, the conditions of life in the cities became almost intolerable.

Not even among representatives of the Soviet Government did I find any optimism in regard to an early return of economic prosperity in Russia. The economic degeneration was frankly admitted, although the causes for it were attributed to the blockade established by other nations, rather than to the impracticability of communism. They were willing, however, to admit that they had been disappointed in the material results of the application of Communism.

No one denied that production had been greatly

reduced, that the transportation system had largely broken down, that there was actual starvation in a wide area and that the general economic position was deplorable. My own conclusion is that there is nothing in the present situation which promises an early restoration of Russia to a state which will compare with its former importance in international commerce.

This has a significant bearing upon the whole European problem. Taken by itself, the economic collapse of Russia would have created a crisis in European affairs had there been nothing else to contribute to it. Russia was both a great granary from which food supplies could be drawn and a customer of great importance for manufactured goods. Even the most optimistic cannot foresee the time when Russia will again become a large surplus producer of food, nor an important customer for European manufacturers. Her need for manufactured goods is extreme. The years of deprivation have produced an enormous vacuum. But goods cannot be drawn into Russia on a great scale unless they are counter-balanced by exports. And that on any normal scale will be a matter of many years.

Restoration of her position as an important customer could be greatly hastened if she were granted credit, for it would immediately increase her productive capacity. But this will be impossible, since the financial world is not convinced of the stability of

the Soviet Government, nor is it convinced that it should contribute to its permanence.

Instead of deteriorating, the Soviet Government has greatly strengthened its position. It has been successful in putting down civil war and has established approximate peace on its borders. Its economic structure is in the utmost disorder, but the abandonment of communistic doctrines promises a gradual economic restoration.

There can never be a free flow of capital into Russia until there is opportunity for unrestricted observation. The confidence of investors will not be gained until endless thousands of eyewitnesses have been able to testify that conditions have improved. It will be a long time before the capitalistic world believes in the good faith of the government. The Government's first thought is self-preservation and if its borders were opened to permit free intermingling of foreigners and Russians, its foundations might be undermined, the Government believes.

Germany is the natural complement of Russia. Germany commercially understands Russia better than does any other nation. There are several hundred thousands of Germans who speak Russian, and the German language used to be well understood in commercial Russia. Germany has the industrial capacity and the organizing genius which Russia lacks. Russia has the food-producing capacity and illimitable

manpower which Germany, better than any other nation, could organize.

There are almost insuperable obstacles in the way of economic fusion between the two countries, however. Poland is one of those obstacles. Another is the fear which the Allies entertain regarding the military potentialities of this union of German organization and Russian productivity, and they will certainly exercise all their influence to prevent it. Perhaps it cannot be avoided. There is an instability in the present political status of Middle and Eastern Europe which might lead to kaleidoscopic changes. No one can predict with assurance what the future there will bring forth.

Economic pressure in Germany may produce radicalism which would bring the political forces in Germany and Russia into approximate harmony. The instability of Poland as a buffer state to prevent economic fusion between Russia and Germany must be admitted. In Germany there is no political belief more universally held than that Poland is not a permanent state. German diagnosis of foreign politics has not been notably accurate, but there are obviously a good many facts on which to base Germany's opinion of the future of Poland.

There is nothing in the outlook in South Russia and the Near East which promises an immediate set-

tlement of the economic situation. The government officials of the four republics that were formed on the eastern borders of the Black Sea are now in exile in Paris and the Bolshevists are in political control of the whole Caucasian territory. Further than that, Bolshevist influence has extended into Persia and political relationship undoubtedly has been established between the Angora Government in Asia Minor and Moscow. The Turks have drawn most of their ammunition for the war with Greece from Russian sources across the Black Sea. Bolshevism has also obtained considerable influence on the western border of the Black Sea.

Nevertheless, I do not think the probabilities point to an extension of Bolshevism, for it is a rapidly waning political theory in Europe. Wherever the pressure of human misery becomes too great there are likely to be outbreaks that will be called Bolshevistic. But these social disorders will only be Bolshevistic in the sense that there will be looting of property, for that is what Bolshevism largely means.

The economic annihilation of Russia has for the time being seriously undermined the commercial structure of Europe. Until some progress is made in restoring something of its old economic importance to Russia, Europe will severely feel the effect. I doubt if we clearly realize in America how important would

be the commercial reaction here to an economic rehabilitation of Eastern Europe. Indeed, it takes considerable imagination and economic knowledge to understand and follow all of the reactions that the play of international commerce creates.

We have never had a very direct or extensive trade relationship with Russia or with the bordering countries to the west of Russia. We need to import the products of these countries, but there has been in those countries a considerable demand for our goods. The direct exchange of our goods for the produce of Eastern Europe is not the thing that concerns us. If Eastern Europe could be rehabilitated as a customer of Western Europe, the indirect effect would be felt in the greater demand of Western Europe for our cotton, copper and other raw materials.

The potential possibilities that would follow a sound economic development of affairs in the Near East concern us far more intimately than we are aware. Here is a vast population capable of great development. It is a section of the world which is about as little known to us commercially as the Congo. I was told that for a period of twenty-seven years only one ship bearing the American flag came into the harbor of Constantinople, though they have seen a good many of our ships since the war. The people seem to us peculiarly alien, the complicated political life insolvably puzzling. The endless racial warfare makes a situa-

tion wholly uninviting to our enterprise. Nevertheless, there are undreamed-of possibilities for mutual advantageous contact.

If we are to understand the peoples of this region of poverty and misrule, we must recognize that the native inhabitants are not alone to blame. The Near East has been a field in which the great powers of Europe have displayed their political ambitions and commercial selfishness. It has apparently been their aim to see what can be gotten out of it rather than what can be made of it. There has been almost no unselfish guidance, but there has been an infinite amount of effort to secure special political and commercial advantage. And selfishness continues to be the chief rôle played by the great European nations.

Since the war there has been further disintegration in the Near East. The policy of England and France has created new complications. Instead of relieving the dangerous situations, new fires of discord have been lighted.

A great deal that is derogatory could be said of the whole Turkish régime. The desire to drive the Turk out of Europe is quite understandable, but the manner in which the Near Eastern problems have been handled by the Allies since the war does not promise a better state of affairs.

The old régime of the Ottoman Empire has been reduced to political impotence. The Sultan, with his

official household, continues to reside in Constantinople. The government of the city, however, has been under military occupation ever since the armistice. Both the military and naval power of England, France and Italy are strongly represented. Great Britain has taken the leading position in local administration. This military occupation has brought a certain amount of order and safety, for the time being, but it has done nothing to aid a permanent economic reconstruction.

The real government of Turkey is no longer in Constantinople, but in Angora, where all the patriotism and the nationalistic ambitions of what is left of Turkey are centered. At the present moment, they are keener than they have been for many months. Mustapha Kemal has been created a Field Marshal, and crowned "The Victorious." The Allies have no unified policy of dealing with this outburst of Turkish nationalism. Instead of that, they have played against one another for political and commercial advantage and have been supporting a proposal which would put a minority in power. We have been represented there by an extremely able High Commissioner, Admiral Mark Bristol. The situation has been devoid of real cooperation, however, between the Allies and our representative, or even between the Allies themselves.

There are Americans in Constantinople who believe that it would still be possible for the United States

to play a great rôle in the Near East, and particularly in Turkey. They believe that if we would undertake a direction of affairs there with the same spirit that we displayed in Cuba and in the Philippines, there might be a surprising transformation. I examined the suggestion that has been made that we might take over from France and England the old Ottoman debt as a part of their payment to us of Allied indebtedness and that there might be developed under our direction a sound financial program and a system of public improvements which would embrace a development of transportation, both by railways and roads.

But there can never be a thorough improvement in the political situation unless a system of education is developed. That can be done at comparatively little cost. The whole problem is not so much one of finding outside help as it is of wise direction, direction which is unselfish, far-sighted and patient.

The present war between Turkey and Greece is purely a war of imperialism and nationalism. The Allies are responsible for it, and they seem helpless in formulating a program which will settle the differences. There was no sound justification for the Allies giving Smyrna to Greece. The motives which led them to do that were complex. They wanted to reward Greece—and they wanted to punish Turkey. They wanted to emphasize their objection to the bad administration of Turkey, but they had no sound rea-

sons upon which to base the hope that Greek administration would be an improvement. Underneath all of those reasons was a desire to make a move on the political chess board that would be embarrassing to Italy.

There has of course been misgovernment in Smyrna. There has been misgovernment everywhere under Turkish rule. But a good deal of the evidence that the Allies adduced for giving Smyrna to Greece consisted of forged documents. The true facts of Turkish misgovernment were bad enough, but they did not justify the occupation by Greece.

Nowhere in Europe has the post-armistice play of politics been as little successful in composing a disturbed situation as in the Near East. Nowhere has national selfishness been so unrestrained, nor Allied coöperation less sincere. The Near East has been both a great offender and a great victim. Internally it has been a field of unharmonized racial antagonisms, of cruel and often corrupt government administration. There has been an unenlightened attitude toward modern conditions of life, a failure to grasp the rudimentary principles in regard to the economic unity of people.

Imposed from the outside, however, have been influences that are deteriorating in every characteristic. Instead of helping the Near East to a conception of the results of a wise and just political and economic

program, it has been made the field in which the natives have been able to study at close range the very worst of Western methods. There has been no end of underhand diplomacy, of attempts to gain special commercial privilege, and of efforts to manipulate antagonisms to gain unwarranted political ends.

All that does not mean that the situation is hopeless. Instead, it points toward the dramatic improvement that might come with unselfish guidance. America could undoubtedly do something in that direction. We could not revolutionize the situation overnight, but if we would accept a certain amount of political responsibility, the good that we might accomplish for the people of the Near East, and indirectly for ourselves, would be quite out of proportion to any risk or effort involved.

It is not the hopelessness of the situation in Russia and the Near East that has gripped my mind, but the possibilities of it. I do not mean possibilities for commercial conquest, nor opportunities for the extension of materialistic designs. I have suggested elsewhere some of the results that would be accomplished if the inter-Allied debts could be handled in such a way that we undertook the responsibility for an important rôle in rehabilitating Europe, and particularly in rehabilitating Eastern Europe. There may be other ways in which we could enter that field. I am certain if we entered it with an unselfish purpose we could

accomplish more than any other people. Our political situation is such that we disarm at the start most of the criticism of selfish political maneuvering which is rightly laid at the door of every European nation, in its contact with its neighbors.

The last thing I would suggest is that America should indiscriminately pour capital into Eastern Europe. The opportunity to do that with advantage both to Europe and ourselves might come later. For the present, our experience, our guidance, our effort to make Europe self-helpful is needed far more than are our dollars. Our money alone might only build up new and unsatisfactory complications.

The improvement of the conditions under which the people of the Near East live, through the development of its resources, would result in better government and more stable economic conditions. If our imagination could grasp its possibilities we would see that any contribution we might make toward that end, far from being impractical idealism, would be the soundest and most promising sort of practical effort.

CHAPTER XII

BULGARIAN PROBLEMS

When we entered Bulgaria we were already favorably inclined to the land and the people. Almost every American familiar with the Balkans with whom we had conversed had independently given his opinion that the Bulgarians were the most promising of all the Balkan people.

The new Bulgaria, shorn from old territory on several sides by the Treaty of Neuilly, is burdened by huge reparation demands. The country is under the tutelage of resident allied commissions, and is isolated and politically friendless so far as its immediate neighbors are concerned. It is not a cheerful example of the Peace of Paris, but the Bulgarians have taken up their burdens, unjust though they feel them to be, with sturdy patience.

Bulgaria never had her heart in the Great War, although the vigor of her blows when she at last came to deliver them on the side of Germany was undoubted. King Ferdinand was thoroughly pro-German in his sympathies, but his people did not share his views. They felt the war was no affair of theirs, and it was with the greatest political difficulty and by

the narrowest of margins that King Ferdinand finally induced the Bulgarian Assembly to sanction the country's alliance with the Central Powers, after a strenuous conference between the King and the political leaders. It is said that Stamboulisky—a peasant who is now Premier—shook his fist in the face of his Royal Sovereign, and declared that to force Bulgaria into the struggle would cost the King his crown. This disloyal prediction proved to be correct, and the late King and his pliant Prime Minister are both fugitives, resident in Germany. To-day, Stamboulisky is the real ruler of Bulgaria, and Boris, the younger son of the late King, reigns, but does not rule.

So adverse were the peasants of Bulgaria to being made food for cannon in a war in which they felt they had no interest, that it was necessary to execute six thousand of them before any could be induced to enter the struggle in what their military leaders thought was a proper spirit. After they were once in, however, they left no question as to their fighting ability. Horrible stories are related in Serbia of the atrocities of the Bulgarians, for the racial hatred between the two countries is intense.

Bulgarians feel that the blame for the war rests squarely on the shoulders of their late King and his Cabinet, and not on the people. The day before I reached Sofia, all the members of that Cabinet that the present government could get its hands on were

placed on trial. They were charged with the guilt of bringing Bulgaria unnecessarily into the war, and I met prominent men who hoped that it would end in an execution, which would be an example to future cabinets, and a deterrent against future wars.

Bulgaria has had, for the present, quite enough of war. She earnestly wants peace. She is terribly weighed down by a war debt, by external obligations, and by an indemnity amounting to two and a quarter billion leva which she cannot at present by any possibility pay. In addition to her loss of territory, and the obnoxious allied political control, she has an adverse balance of trade, and is suffering from the common curse of Central Europe, a depreciated currency.

The allies have been vigorous in enforcing their demands, but lax in keeping their promises. They promised Bulgaria, after carving off her southern border and giving it to Greece, that she should have free access to the Ægean. It has not been done, and her water communication since the armistice has consisted only of a mediocre port on the Black Sea.

Bulgaria is a purely agricultural country. Within its new boundaries are 4,700,000 inhabitants. There is no manufacturing, and eighty-seven percent of its population are said to be agricultural peasants. The capital, Sofia, is a sprawling city of 130,000, and is not unlike some of our western state capitals, except for an occasional Turkish mosque, and many peas-

ants in curious and gaudy costumes. Bulgaria mines its own coal, and raises enough sugar beets to supply partially the national needs. But on the whole it is a primitive peasant country. The government is a limited monarchy in type, but it is in fact a peasant government, with a peasant Prime Minister.

There was at one moment some danger that Bulgaria would turn Bolshevist, or at least Communist, and there are at present numerous Communist municipal governments. The peasant government has instituted certain types of legislation upon which the allied commissions look askance. For example, every citizen, man or woman, between the ages of eighteen and fifty-five must work for at least ten days at manual labor every year for some public purpose. Its application was modified under allied pressure, though it is still strictly enforced, no matter what social position a person may occupy. I saw a group watching the labors of a number of well dressed men who were planting trees and raking the lawn around a public building. Every male citizen must perform this minimum of public service. It is not so strictly enforced with the women, and Turkish women are exempted. Even the school children have to give ten days' service to the state. They put school premises in order, bind books, and otherwise contribute to school housekeeping. The men may be sent to any place that public service is required. If a road needs

re-surfacing, or a new bridge is required, citizens of any station in life may be summoned as manual laborers. Even in the foreign legations this service is enforced, and Bulgarian Embassies are having a ten days' house cleaning in many foreign capitals such as they have never known before.

There are also interesting paternalistic laws enacted by municipalities. In the capital city, Sofia, no school girl may wear a hair ribbon, and police regulations include very specific directions to curb extravagance of dress by women. Fortunately, they do not apply to the gayly embroidered costumes and the gold and silver ornaments of men and women peasants, which lend an operatic atmosphere to the city.

The simplicity of life aimed at by the government is in a measure adopted by young King Boris. At the funeral of Ivan Vazoff, a poet of national renown, which occurred a few days before I visited Sofia, the King had followed the cortege on foot, in a procession that passed through all the principal streets of the capital.

There is no land question in Bulgaria, because the peasants own their own farms. Agriculture is not highly developed, and methods for marketing grain are undeveloped. The surplus which is raised in this country with eighty-seven percent of peasant population produces exports that are disappointingly small. The total production of grain this year is estimated

at 2,800,000 tons, an increase of 100,000 tons over the year before, and 300,000 tons more than in 1919. The requirements for domestic consumption are said to be 2,250,000 tons. The country exported last year only 139,000 tons.

Bulgaria has come much nearer balancing her budget than most of the eastern European nations, though her total budget for 1921-22 contemplates an expenditure of 2,693,000,000 leva. The principal items included 647,000,000 for public debt, 528,000,000 for war; 252,000,000 for commerce, industry and labor, and 228,000,000 for public instruction. In July the taxes were revised, and the government intends to raise the receipts from customs and from tobacco materially, but to reduce the export taxes. The minister of finance hoped to get through the year with a deficit in the neighborhood of 300,000,000 leva. The consolidated debt was stated to be 2,758,000,000 leva, and the bank note circulation 3,318,000,000 leva, or 700 leva per head of population.

Bulgaria's participation in Germany's defeat has caused her terrible losses. The indemnity mortgages her future for thirty-three years. The peace-makers carved her up without sympathy. They gave a slice on the north to Roumania; they took away on the south a long strip of Thrace which was Bulgaria's outlet to the Ægean Sea; they disbanded her army, prohibited conscription, and allowed her a gendarmerie

of only thirty-three thousand men. They coupled that military limitation with the provision that there should be only voluntary enlistments, and that each man must enlist for a period of twelve years. A large Reparations' Commission is quartered on Sofia, and she must pay its expenses, as well as those of an allied military Commission.

The Reparations' Commission is a very sore point with the Bulgarians. They claim that it still numbers one hundred and fifty members who were drawing excessive salaries out of the Bulgarian Treasury. The allied representatives denied that the Commission is as large as this, but it is certainly large enough to occupy important buildings, and the Bulgarians feel that its presence is unnecessarily emphasized in their political life.

There are small incidents connected with the occupation by allied representatives which appear to be very irritating. I was told, for example, that one of the Commissioners, on his arrival, looked the town over, picked out one of the best houses, and requisitioned it for his personal use. This house happened to be occupied by an old man, afflicted with paralysis, and he objected to being turned out of his home. The government explained the situation, and said they would provide some other house that was equally desirable. The Commissioner declared that this was the only house that he would occupy, and threatened to

return to his country until the Bulgarian government was prepared to show him proper courtesy; the government had to submit to his demands.

The antipathy toward the allied commission is a petty matter. It is the terms which the allies made in regard to their army that have struck deep into the sensibilities of the Bulgarians. Under its provisions the government finds it impossible to organize even the small gendarmerie that the terms of the treaty of peace permit. No peasant will enlist for twelve years. His Majesty King Boris showed the greatest concern, in the talk I had with him, over this feature of the situation. It is felt that the government cannot secure the enlistment of the full complement of the gendarmerie on such terms. The people who do offer themselves for enlistment are the worst sort of characters, men with criminal records, ne'er-do-wells who have been unable to earn a living, and men with Bolshevistic tendencies who want to get into the army in order that they may corrupt the organization.

The result of the compulsory disbanding of the army seems to be full of danger. Every one declared that the Bulgarians desired only peace and internal order, but to ensure that a certain number of soldiers are required as a constabulary, to guarantee order at home. They feel that Bulgaria is surrounded by hungry neighbors; that Bolshevism is but a little way off, over the Black Sea, and that it is decidedly unsafe to

leave the government without the protection of an adequate armed force.

Another burning political issue is the way the boundaries are drawn. On the west, the Jugo-Slav frontier has been brought uncomfortably near to Sofia. It is within thirty miles. It is so close that a dash might conceivably be made at any time that would endanger the Bulgarian capital. They believe that the large Bulgarian population in Thrace is subject to an execrable political administration by Greece. Indeed, every race that has experienced Greek administration testifies that it is a monumental failure, and the number of refugees from new territories occupied by Greece proves the indictment. I was told that three hundred thousand Bulgarians had been driven out of Thrace, and were now refugees in Bulgaria. Many of them have found their way to Sofia.

In addition to the Bulgarian refugees a great number of Russian refugees have appeared in Bulgaria from Constantinople. This influx has made a tremendous social problem for the people of Sofia. It has resulted in a most acute housing situation. In an effort to relieve this, and with its background of socialist tendencies, the Bulgarian peasant government has undertaken to quarter peasant refugees in practically every house in Sofia. If the house happens to belong to a political enemy, or to some one who is regarded as a profiteer, the worst lot of peasants that

can be found is quartered in the main drawing room; bathrooms become kitchens; living rooms are turned into tenement quarters. In Sofia, no one's home is his castle.

This confused and complex social situation is breeding a certain amount of Bolshevism among the refugees. Their present situation does not stimulate them to work. They now have a foothold in the houses of the well-to-do, and they say they will wait for the day when they can take everything. The prosperous citizens profess considerable fear of Bolshevism. But in that connection it should be remembered that Bulgaria is a country of peasants, owning their own lands, and that the Russian refugees are naturally anti-Bolshevistic. Consequently it would seem doubtful if Bolshevism can thrive in Bulgarian soil. But without an adequate gendarmerie the government feels that it might be possible for a very small group of revolutionists to overthrow the government and take command of the situation, as they did in Russia.

Among the Russian refugees are several thousands of Wrangel's troops. They are still being held together in a semi-compact military body, and were supposed to be receiving contributions for their maintenance from the former Russian Ambassador at Washington. Some of these troops get occasional work, but on the whole they do not earn a living. Most of the Russian refugees are living in great hard-

ship. Constantinople is continually forcing more of its Russian refugees into Bulgaria, because food there is very cheap. Ten thousand more of Wrangel's troops were expected to arrive soon after I was there, and it was said that their maintenance was also provided for out of funds still left in the hands of the diplomatists of the old régime.

PART III

RECONSTRUCTION

In the preceding chapters the reader has gained a rapid and perhaps incomplete view of the background of Europe's appalling economic situation and of the problems which harass individual nations. If there was no other side to the picture; if it was necessary to close this book on a note of despair without presenting some reasonable hope of a brighter future, the reader might justly conclude that the civilization of Europe was doomed to slow decay and that the Continent was facing a return to what has been called the "Dark Ages."

But there are remedial influences, some of them already at work, others mere projects that sooner or later must be put into concrete form. One cannot believe that the antagonism between nations, the divided counsels, or simply our apathy, will be sufficient to check the impulses of so many men everywhere to find some means of bringing order out of Europe's economic chaos. The structure of European civilization is so magnificent that we must not let it fall. It is unthinkable that the work of ages, the hopes of those millions of men and women who believed that the beginning of peace was to be the end of starvation and suffering, are to be extinguished simply because mankind cannot agree on the measures that

must be adopted. We cannot lightly face the misery that will fall on a great section of humanity if we allow these splendid nations to plunge so far into the pit of despair that they cannot be rescued.

Something must be done, and we cannot wait too long. In the following chapters I have pointed out some of the curative influences at work—the League of Nations which is succeeding in some measure in binding together again the shattered unity of Europe; the new attitude of the workmen of the Continent which promises to allow labor and capital to work in harmony together without the menace of class warfare and revolution. These are both influences that will tend to cure the broken spirit and the hatreds of European peoples.

But there must be practical and material measures too. Something must be done to check the mechanical plunge of the standards of value into the vortex of depression and inflation. The crumbling foundations of the economic life of these nations must be rebuilt, for European civilization threatens to collapse. The staggering load of domestic and international debts must be lightened; credit must be reëstablished and faith in the security of the future.

It is in the belief that we must begin to think of these problems that I have presented in later chapters a plan by which European currencies may be stabilized, and another plan for the settlement of the enor-

mous sums owed to the United States by the Allies and for reconstruction in Europe. It is obvious, since this country is the only great reservoir of almost unlimited capital that remains, that Europe cannot be rehabilitated without aid from the United States. It is not necessary that the plans that I have outlined should be accepted, although something approximating them must be accomplished. The great mass of intelligent opinion in this country must be awakened to the knowledge that without us Europe may perish, and what that catastrophe would mean. And when the time comes, as it must soon, for our participation and our guidance in the rebuilding of Europe's broken spiritual and material wealth, we must be prepared to understand their need and our opportunity.

CHAPTER XIII

THE INFLUENCE OF THE LEAGUE OF NATIONS

The results of the Treaties made at Paris have proven exceedingly unfortunate in most respects, it is true, but it was an extraordinarily difficult task which the Peace Conference faced, and the bitterness with which they were conceived was, perhaps, almost inevitable in view of the background of the war. The work at Paris was not all blind and destructive. I would not for a moment give the impression that I think any of it was intentionally destructive. There is no situation in Europe, no matter how unwise the actions that have created it may appear to be, that on sympathetic examination will not be found to have two sides. Criticism and condemnation are to be heard on every hand, leveled by every people against some other nation. The treaties were imposed; they were not negotiated. They were based on ex parte judgments which are almost always unsound.

Paris was not wholly without vision, and some attempt at sound reconstruction. The formation of the League of Nations was the evolution of a worthy ideal. If the same spirit had genuinely dominated the

terms of peace, the Treaties would have been far more wisely drawn, and the suffering of both allies and enemies would have been immeasurably less. Condemnation of the peace terms, therefore, should not extend to the League of Nations, although technically the Covenant is part of the Treaties.

In constituting the League, there was a sound attempt to create a new agency of order and recuperation in Europe. Faith in what that agency might accomplish was the only inducement which led some of the delegates to sanction agreements in which they did not believe. Such statesmen as General Smuts signed the Treaties with the greatest reluctance. They did so because they believed that in the League of Nations the world was obtaining a new instrument of coöperation and justice which could rectify many of the mistakes in the Treaties by administering and modifying them in ways that would make them tolerable. They hoped that the League would more than compensate for the evils of the Treaties.

I doubt if any one can claim that the constitution of the League of Nations was a perfect conception. And I was never convinced that the United States ought to become a member unless some of the terms of the Covenant were altered. Without the United States, however, the League was almost fatally handicapped from the beginning. The United States could have brought to the administration of the League an

objective and authoritative attitude which no European nation can furnish.

We have generally underestimated, however, the actual accomplishments of the League since its formation. It has meant far less than its designers hoped, but it has pointed the road to future European welfare.

Unless among the people of Europe there is a growth of the spirit of justice in international relations, an understanding of the folly of selfishness and intrigue, and a recognition of their unity of interests, there is nothing but decay and disintegration ahead. These principles form the moral basis of the League of Nations.

It is not perfervid rhetoric to say that European civilization is facing a complete breakdown. In a poisoned atmosphere of continued suspicion and antagonism, there is death, for Europe can only live through coöperative effort. Militarism, uncurbed racial hatreds, blindness to the importance of economic inter-dependence, and exaggerated nationalism are all pushing Europe toward disaster. The only permanent economic agency for the recuperation of the continent, which has so far been put in operation, is the League of Nations.

An observation of the work of the League at Geneva leads one quickly to the conclusion that it is not a superstate, although one might suspect after read-

ing the Covenant that it would become one. It might be said that it has proved to be weak, that it has been impotent to accomplish important aims and that it discusses but does not act, but the fear that a political Frankenstein has been built up should be quieted.

However far short of expectations the accomplishments of the League have been, they have by no means been barren of practical results. I have spoken elsewhere of how impressive is the organization of the Secretariat. Sir Eric Drummond, the permanent Secretary of the League of Nations, is at its head. So far as he is responsible for the creation of the permanent organization he is building such a monument to efficiency and high purpose as is given to few men to erect. A comparison of this small group of men with the organization representing any government or other undertaking with which I am familiar is astonishingly to its advantage. It has proved that there can be brought together a group of men of high purpose, who can rise above narrow national prejudice to view Europe comprehensively. The world is ripe for a new type of statesmanship, one that comprehends the unity of interest among the different nations of Europe. There are signs of the birth of such statesmanship at Geneva.

Among the positive accomplishments of the League may be cited the Brussels Finance Conference. At that Conference a great group of nations for the first

time coöperated in drawing up what are now generally accepted to be the soundest economic and financial proposals which have yet been conceived of for the economic reconstruction of Europe.

In creating the financial and economic committees of the League there were brought together some of the best trained minds in Europe. Those committees have laid the foundations for two major projects; the economic regeneration of Austria, and second, the Ter Meulen scheme for the creation of sound international credits.

The plan for the rehabilitation of Austria was blocked by the inaction of the United States. We blocked it not because we actively objected to it, but because we took so little interest that we failed to give any serious consideration to the subject. Austria must have temporary financial assistance. Her credit is exhausted. She raises but a fraction of the food she requires. She is temporarily handicapped in producing and finding a market for her manufactured goods, and thus is left without means of providing international credits with which to pay the most essential items in her grocery bill. The financial committee of the League of Nations studied this problem with great intelligence, and formulated a plan under which temporary credits could be supplied to Austria, if these fresh credits could be given priority over old liens. Every European nation having claims against

Austria agreed to subordinate those claims to the lien of fresh loans which would keep Austria alive during the period of readjustment which must precede her becoming a self-supporting nation.

The United States Grain Corporation, after the armistice, supplied wheat to Austria, creating a debt of twenty-four million dollars due to the United States. Our claim was entirely just, but so long as it was permitted to stand in its present position Austria could not obtain the further loan which would temporarily tide over her food problem. We did not refuse to subordinate that claim, but we were not sufficiently alive to the importance of the matter to give it any serious consideration. We filed it under the general heading of inter-allied obligations and took no special action on the matter. The well-conceived project for the economic rehabilitation of Austria was blocked. Enthusiasm for it has now grown cold and it is doubtful if it can be revived.

The League of Nations has made progress in working out an entirely new theory under which the political and economic boundaries of a district need not be identical. The development of such a theory is essential in solving the Upper Silesian problem, where an industrial district was politically divided between two countries while at the same time its economic integrity was in a large measure preserved. This new principle in international relations can be applied to

the difficulties of neighboring states. It deserves study.

The first concerted effort to break down the trade barriers in Europe, which have resulted from the unrestrained erection of political barriers, has been through the League of Nations. It organized an international conference in Paris on passports, customs duties and transport difficulties. The result of that conference is now working out in an economic policy which has the support of many states.

The League arranged another international conference at Barcelona. Representatives of forty nations sat down there to study the whole question of freedom of communications and transit, as affecting railroads, rivers and harbors. A convention on the general principles of freedom of communication and transit was drawn up. Detailed recommendations were made for the operation of international railroads and international ports. Out of that conference has come an Advisory Committee on Freedom of Communications and Transit, which promises to be useful in bringing nations together on these vital issues.

The League is becoming an agency for order in Europe. It gives some assurance against sudden war. It has successfully mediated in three serious international disputes. It composed a dispute between Sweden and Finland in regard to the Aland Islands. It averted a serious strain between France and Great

Britain, Germany and Poland in disposing of the Upper Silesian difficulty. It undertook mediation between Jugo-Slavia and Albania. In addition, it has kept the Poles and Lithuanians from fighting for a year and a half, and has narrowed their dispute over Vilna to a point where its final adjustment is not far off.

For the first time in history the League has created a real world court, and has provided the machinery for the peaceful settlement of international disputes.

It has become the medium for appeal in any well established charge of the suppression of minorities in segregated districts. It has obtained from fifteen different countries in Europe guarantees against the abuse of the rights of minorities. In this field, it is true that it has not yet been notably successful, but it is the only agency that is making any progress. The field is a peculiarly difficult one. In it the League has not yet shown much courage or force.

The League has accomplished a good deal in the way of initiating a feeling of European solidarity and common responsibility. It has served as a bridge between the Allies, their former enemies, and the neutral peoples. Austria and Bulgaria have been admitted to full membership, and Germany has been asked to cooperate in a series of conferences on finance, labor and transit.

The investigations that it has made in the drug traffic, "white slavery," unemployment and child la-

bor, have formed a body of influential opinion on these problems that will aid in obtaining unified measures for dealing with them throughout Europe.

Any one who studies thoughtfully the fundamental causes of poverty and distress in Europe, in relation to its unbounded resources, its immeasurable opportunities for improved production, its splendid cities and vast industrial plants, must arrive at the conclusion that Europe is suffering unnecessarily. The trouble does not lie in the shortcomings of nature, nor in any lack of the machinery of civilization. The people of Europe could be bountifully fed, well clothed, and could live on a high plane of material comfort if there could be reasonable coöperation between racial and political groups.

At the present time there is something approximating political and industrial anarchy. There are no general laws effectively governing the conduct of one nation toward another, and no recognition of the economic unity which might bring potential industrial forces into effective play. Europe is idle, or rather ineffectively employed, and suffers from great want. Insurmountable barriers prevent freedom of commercial communication. The machinery of credit is demoralized and the free interchange of goods is made impossible. Nations desperately struggling for their

own existence blindly endeavor to gain advantage at the cost of their neighbors. They fail to recognize that in the complicated inter-relations of modern life their own prosperity is dependent on the well-being of their neighbors. There is no reasonable restraint in international relationships. Supreme national sovereignty is grotesquely exaggerated. There is universal suspicion and cynical disbelief in the good faith of others. This selfish maneuvering for special advantage results in disadvantage for all. Liberty, and the hope of progress, are lost in international anarchy.

All these influences are threatening the fundamentals of civilization. However convinced America may be that it should keep out of the cauldron of European evils, it seems little enough to ask that we should at least give some consideration to the possibility of correcting and diverting these disintegrating influences. America has had experience such as no other nation in the world has ever had, in free communication, coöperation between states and the governing of large numbers of people and wide territories, which should qualify her to do some clear objective thinking about the plight which Europe is in.

It is entirely out of the range of possibility that any single formula can be suggested which will banish these evils. No single prescription will cure all the diseases of these sick states. There are some general

considerations, however, that must be taken into account before a comprehensive program of reconstruction can be formulated.

One of these considerations I have come to believe points to the necessity for a new concept of the state. Unbridled state sovereignty means, in its logical conclusion, the unrestricted right of every nation to follow the course that it chooses, without regard to the effect that this course may have upon other nations. National liberty of action is construed to mean the extreme development of this theory of supreme state sovereignty, which seems to be leading the continent of Europe toward international disaster.

If we take the analogy between the freedom of the individual and of the nation, we will be able to think more clearly of international affairs. For the last two centuries there has been slowly crystallizing in the minds of men a new definition of what constitutes personal liberty. In its primitive conception it meant complete freedom of action on the part of the individual. We have seen evolution in that conception, until we have now come to realize that complete human liberty in a numerous society can only be attained by the imposition of restrictions and the creation of restraining laws which protect weak and strong alike. Anarchy is not liberty; unrestrained right to do as one wills would mean a society in which fairness, justice and freedom ceased to exist. Without restraint the

strong would become predatory; force, rather than justice, would rule; coöperation would be impossible.

Civilization does not mean material accumulations. It means the ability to live together under recognized rules of justice and good order. It means restraint upon the individual in his relations with his fellows.

Under that definition of civilization, and I believe it is the only definition that stands every test, Europe is uncivilized. Europeans have shown an inability to dwell amicably together. Is not an important reason for that to be found in the theory of supreme state sovereignty?

What would the American continent have been with forty-eight independent political entities, blind to their economic unity, antagonistic through racial prejudice, uncontrolled by any common rule governing their inter-relationships? The development of our history has largely been a story of the imposition of restraints upon individual commonwealths, the establishment of rules of conduct for each state in relation to other states.

It is along the lines of this definition of individual liberty that I believe the concept of the state must be changed. The idea of the supreme sovereign right of nations must be surrendered. Under such a definition as I have in mind a state would be entirely free to manage its domestic affairs as it saw fit. In all its foreign relations its conduct would be made to con-

form to the best interests of the society of nations. That would not be a loss of freedom; it would be the attainment of liberty.

At the present time Europe is facing in exactly the opposite direction. The idea of self-determination has made nationalism blaze up in new fires. In its application by the Peace Treaties it has proven one of the greatest curses that has fallen upon Europe. Nevertheless, the theory that the existence of governments should depend upon the consent of the governed is fundamentally right and just. But it was a mistake to bring forward the idea of political self-determination at the risk, even for the time being, of neglecting the economic consequences of setting up new national boundaries. New states were constituted without making any provision for their conduct toward other states and without recognition of the economic necessity for coöperation.

Doubtless this was done because statesmen had not investigated the problem. I was interested in the charge made by a Turkish girl in Constantinople College. She believed that the noble political theory of self-determination had been seized upon by Allied statesmen as a weapon by which old states could be dismembered, racial antagonisms used for their own ends, and new political disorder created, so that throughout a great part of Europe no state would be left large enough to be of military importance. If by

any chance that charge is true, the end was attained at a fearful cost. Military units have been reduced in size, but the creation of new sovereign states has disrupted the old economic unity. Unless the theory of state sovereignty is modified, that disruption may go to an appalling length.

With such a conception of the state as I have outlined, the evil effect of self-determination would disappear. Instead, its application might be almost indefinitely extended. As self-determination has been carried out, it has initiated disastrous economic consequences. At the same time, it has not entirely cured the political evils that it was intended to remedy. For example, the Czechs have been released from an imposed domination of a governing class of Germans with political headquarters in Vienna. But there remain in Czecho-Slovakia three million Germans, who now consider themselves an oppressed minority, while the Slovak people are too loosely related to the new republic to be satisfied. Illustrations of this sort could be greatly multiplied. Instead of composing racial differences, they have been emphasized. There are more instances of suppressed minorities in Europe to-day than ever before.

Under such a conception of the state as I have suggested, Slovakia might well become an independent state entity. If there is remaining territory where Germans are in very large majority, that portion of

the country might be made into a German speaking state. The same idea might be applied wherever there are important racial minorities geographically segregated. Such action, however, would be fatal unless the states are federated in a way that properly governs their international relations.

Under a scheme of an ideal Europe we might conceivably have a far larger number of states than now exist. It might be possible to make such divisions so that no state would embrace solid blocks of antagonistic nationalities. Each state could completely manage its domestic affairs, but in all of its external relations it would need to be subject to the restrictions of a federal constitution.

Obviously, a political union of this sort is for the present entirely inconceivable. The approach to it must be made gradually, and perhaps can be attained only after a generation or two of wise education.

It seemed to me that excellent political results might follow the establishment throughout Europe of an international Federal Reserve Bank similar to the Federal Reserve system in the United States. I refer to this project in detail elsewhere, but its political significance may well be discussed at this point. It would be possible to set up in Europe an international bank, with component banks located in the capital of every European state. Such a bank, if it had the power to issue a common currency for circulation in all, or

a great number, of European states would be a unifying economic influence. Different nationalities would see the possibility of working together coöperatively. The political education that would come from such an undertaking might in the end be even more important than the economic accomplishment, although I believe that would be very great. Since the fundamental trouble in Europe lies in a situation that approximates international anarchy, any influence tending to turn that anarchy into order would be of the utmost importance.

Up to the present, the single agency that is working to accomplish this end is the League of Nations. It merits respectful and sympathetic consideration. Its work has already been beneficial, though the task ahead of it is so great that by comparison its present accomplishments seem meager. It needs our advice and coöperation. The Covenant could be modified to meet any reasonable objections which we may raise. If we are not prepared to join the League,—and obviously we are not,—is it not our duty to find some way in which the great moral forces and political prestige of the United States can be made useful in putting a dangerously distraught world in order?

CHAPTER XIV

THE ATTITUDE OF LABOR

The attitude of labor as it faces the new problems of peace must be made an integral part of any investigation of the economic situation of Europe. To neglect it and to study the economic situation of Europe only through the eyes of Government ministers, financiers and industrial leaders would be to get but half the picture. Next in importance to knowing the aims and aspirations of governments, is to know the aims and aspirations of labor unions.

Generally speaking, labor is much more highly organized in Europe than it is in America. Its programs are more completely developed and there is a greater unanimity among the laboring classes in backing them. It is undoubtedly true, as any one with wide familiarity with European labor leaders can testify, that the grasp which they have upon the principles of economics that are involved in the labor question is far firmer than is generally the case with our American leaders. Some of the best economists in Europe are labor leaders. I think that some of the most statesmanlike minds may be found among labor unionists. It becomes of great importance, therefore, if one is to attempt a

prognosis of European affairs to know in what direction union labor sentiment is facing.

The Great War, and still more, its after effects and developments, have brought about a highly important fundamental change in the general attitude of European organized labor. It is a change significant of great promise. I would set it down almost at the head of the list of hopeful and promising indications in the disturbed European outlook.

In latter pre-war days, the attitude of organized labor, broadly speaking, was clearly revolutionary. The doctrines of Marx and later Communists had gripped the minds of those who shaped organized labor policy. There was general discouragement in regard to the whole capitalistic system. Its selfishness was emphasized, the inequalities of life under it were magnified. The failure of labor to obtain an adequate voice in industry, or at least a voice which spoke with the authority that labor thought it should have, had made labor cynical in regard to the benevolent protestations of capital. There was an idealistic belief that a better system could be inaugurated than the faulty, greedy, intolerant control which was its conception of the capitalistic organization of society. In their condemnation of the old order, this idealism was not always expressed. Men came to feel that they had been defrauded of their just participation in the fruits of their industry and viewed with exag-

gerated emphasis the material inequalities in the possessions of society. They looked with covetousness on the accumulations that rested in hands which they felt had contributed inadequately to the creation of the wealth they held.

The underlying aim of organized labor was, therefore, revolutionary. Labor had ceased to believe that it could wrest from the capitalistic order concessions that would satisfy its sense of justice. Sabotage, rather than coöperation, came into favor. The ca'canny policy of doing as little as one could seemed to many a sort of class altruism which would multiply the number of jobs. Restrictive union rules governing the conduct of industry multiplied, until they became a web made up of innumerable strands, holding back and paralyzing industrial production. Just prior to the outbreak of the war, if union labor had had its way, the capitalistic order would have given place to a greatly extended system of State socialism, although the more radical elements would not have been satisfied even with that change.

Then came the war, with its limitless demand upon industry. Labor found itself overnight in so commanding a position that it could dictate terms and wages. Under the influence of the law of supply and demand, aided by a depreciated currency and rapidly rising price levels, wages were increased with a rapidity that had never been known before. But these

easily won wage concessions failed to increase production to the point where it could meet the limitless demands of the military machines. The national exigencies which had brought about these startlingly frequent wage revisions demanded that the entangling web of union restrictive rules should not interfere with the production that was vitally necessary. Union labor had to give way in that respect. The ranks of skilled labor were diluted by unskilled hands who were rapidly trained to operate automatic machines. An endless list of restrictive shop rules was wiped out. Labor worked harder, produced more, and on the whole was better recompensed than ever before.

Then came the great drama in Russia. With amazing ease, the whole capitalistic order in a nation of 160,000,000 people was wiped out and in its place an almost complete Communistic social experiment was set up.

Labor looked on with breathless interest. Was it possible that one of the indirect results of the war was going to be a world millennium? Would all the injustices of the old capitalistic order be swept away and a new world emerge, built on the ideal principles of Communism? There was hardly time for ardent radicals to sketch in their own minds the barest outline of such a picture before it was seen that sane men must view Russia's great experiment with reservations. People became dimly aware that the old autoc-

racy had given place to one that was more extreme and that every semblance of liberty had disappeared.

A curtain was drawn tightly over the experience of Russia, but here and there were the slightest openings that permitted views which showed that the new society was far from an ideal one. There were a few ardent Communists who obtained some insight into the way the new order was working and a question rose in their minds with startling insistence. They asked whether, after all, life could be tolerable in a community that left nothing to individual initiative. They saw in Russia the whole economic life directed by an autocratic hand. They saw that this Communistic experiment rested on a more complete autocracy than either the modern or the ancient world had ever witnessed.

Even radical union labor looked askance at the idea of a Bolshevized world. Communism in practice presented some very unpleasant conclusions. Those who had believed that Communism might turn the earth into a Garden of Eden discovered that it was indeed true that Russia was taking on some of its characteristics, characteristics that promised to leave its inhabitants unclothed and without any of the machinery of production and distribution. In this modern Eden, unless one's life happened to be cast under a fig tree, his lot promised to be one of nakedness and hunger. There was a rapid revision of old dreams about a

Communistic state. The adherents of the general theory of Communism began to fall away. Nevertheless the radicals continued to insist that the hardships which every one admitted Russia was experiencing were not due to the new economic order but to a wicked combination of western nations to boycott Russia and starve her into abandoning her Communistic ideals.

The progress of the experiment was too unpromising, however, for any one of sanity to wish to see it made world-wide until more evidence of its value accumulated. All classes were deeply alarmed by the activities of the Bolshevists in spreading their propaganda and by the vast machinery which they organized to overturn existing governments and create revolutions which would force other people to adopt their theories.

The experiment seemed to be leading the Russian nation into the deepest human misery that any people had ever experienced. It was seen that there might be adventitious causes for its failure and that the true picture was perhaps not as black as the few observers who were able to get a glimpse of it had reported. But in any event it was obvious that Russia did not look as if a millennium had arrived. Adherents to the principles of Communism were shaken. Labor began to examine anew the fundamental advantages and disadvantages of capitalism and communism. That

examination has resulted in a marked change in the views of unionist labor in Europe.

I was told by some of the chief labor leaders of Europe that in America, even among the greatest heads of our labor movement, we have failed as yet to understand the profound change which has taken place in the attitude of European union labor. The highest authorities declare that it is now no longer revolutionary. There has been a distinct swing away from the left that amounts to a general abandonment of their belief in the practicability of Communism in the present state of society and of human nature. The fixed belief that it was useless to attempt to reform the capitalistic order in such a way that labor would gain what it felt was its due began to crumble.

The labor mind turned in a new direction. It abandoned idealistic theories and vigorously took up the consideration of what might be accomplished in a capitalistic régime in which labor had a far greater share in its control. During the war it had been demonstrated that it was possible for labor to have a more coöperative attitude and a greater intellectual participation in industrial direction. Labor began to place greater emphasis on the shortcomings of capital in its conduct of industry rather than in its treatment of labor. It began to study and emphasize the cost to capital and labor alike of the blind and ignorant mistakes which capital was making in failing to adopt the most scien-

tific means of handling the problems of production.

With a clearness with which it never viewed the subject before, labor has come to see that its recompense in the end can only come out of production. No matter what success labor may have in revising its own proportion of the total, the amount produced is, after all, the governing factor which fixes the maximum possible reward for both capital and labor. The relative division between them may be changed, but the combined rewards of capital and labor cannot be greater than the total of goods produced. This is an economic truism; the interesting thing is that labor understands it.

As I have said, the new attitude of labor appears to me to be perhaps the most promising element in the European outlook. I do not mean in the least that the swing of labor sentiment has been reactionary. Some of the results of Bolshevism have appalled it. There has been a sharp awakening from Communistic dreams; programs of revolution against capitalism have been torn up. Labor has a quite different program in its mind than reaction. It has laid aside the idealized conception of a new order of society but in its place it is building up another ideal.

This new vision of labor, which seems to me to be of such hopeful augury, is not one that capital will look upon complacently in the hope that it will free its future road from obstacles. I am not sure that a

good many old-time capitalists will not feel that the new vision of labor is almost as dangerous as its old dream of revolution.

Labor criticizes the capitalistic system to-day, not so much in its fundamental principles as in the lack of intelligence with which it has administered its affairs. It criticizes the management by capitalists but accepts capitalism, and is profoundly convinced that out of its own ranks may come a great contribution toward more able administration. This means, of course, that labor wants a larger voice in the direction of industry.

In the numerous conversations which I have had with labor leaders throughout the Continent, I have been universally well impressed with the grasp of economic principles which these men have shown and with their intellectual ability to argue their case. When I compared their minds with the frozen minds of occasional old-time reactionary industrial individualists, I could not see many grave dangers in the impending struggle in which labor will try to secure greater responsibility in the capitalistic order of society. I am quite free to admit that the views of the best of the labor leaders are not representative of the average. There is still a good deal of blind class-selfishness in the ranks of labor and a belief that it can add permanently to what it has by taking the possessions of those who now hold them.

It will long remain a question whether or not the most intelligent leaders of labor will really succeed in shaping and controlling the attitude and policy of labor as a whole. Politicians have always had to sacrifice their own principles to what they believed to be the sentiment of the masses and the directing of labor union policies is but another form of politics. If labor leaders are to lead, they must first retain their positions; to do that they cannot get too far ahead of the average sentiment of their constituents. It would be a mistake to predict from the attitude of a few liberal men in what direction and how far the great mass of labor sentiment will go.

If the sound statesmanship and the practical economic knowledge of government office holders could be measured in comparison with the same qualities in the best of the leaders of union labor in Europe, I think labor would not suffer greatly by the comparison. It must be admitted, however, that the labor leaders have a difficult problem to solve. First, they must convince society that their aspirations are not too radical and are for the general good of society, and at the same time they must convince their followers that the leaders' views are not too conservative and that they are sufficiently centered on the direct interests of the labor class.

I found myself exceedingly sympathetic with the aspirations of some of these labor leaders toward a

better organized economic world. No one but the most reactionary of capitalists would deny that there have been blind shortcomings in capitalistic management. That there are unexplored possibilities in a future in which capital and labor will coöperate harmoniously is certain. Labor is not impressed with the idea that capital has a monopoly of brains. It feels that it has mind as well as muscle to put into the partnership, which will so help to increase production that the share of both sides will be larger than it has ever been in the past.

Labor resents the theory that wages should be reduced and that the solution lies in longer hours and lower wages. Instead they believe that it lies in the direction of honest coöperation and the application of more intelligence to the task of world production.

M. Albert Thomas, head of the International Labor Bureau of the League of Nations, French labor leader, Member of the Assembly, and late Minister of the government, is one of the foremost exponents of this new view of labor. His work during the war is acknowledged by every one to have been an important factor in the vast industrial effort which coördinated the workshops of France with the effort of the men in the trenches. He summed up for me what he regarded as the immediate program of European unionist labor. First, it must unify labor laws as to hours, working conditions and child labor. Second, there

must be international agreements for the distribution of raw materials between the nations; this was particularly necessary, he felt, to regulate the production and distribution of coal. Third, improvement in transportation must be achieved and the removal of the complex network of interference with the freedom of international communications.

He was sharply awake to the danger that threatens highly industrialized nations which have an inadequate domestic food supply. He deprecated national tendencies to return to the views of the Physiocrats to make each nation wholly self-contained. He pictured the loss to civilization if nations succeeded in being self-contained economic units, instead of carrying forward the coöperative effort of a highly organized economic world in which different nations specialized in producing those things for which they were best equipped by nature. It is the difference between a community where every one does his own weaving, cobbling and food raising and one where groups of highly specialized craftsmen exchange their skilled production for the skilled production of others.

A well organized economic world must have peace for its foundation. Europe is sharply awake to the horrors that come upon innocent industrious people, who are highly specialized in their craftsmanship, and can live only by the exchange of their products, if the whole machinery of international exchange is thrown

into confusion by war. That is really what is the matter with Europe. The most intelligent of the labor leaders understand the necessity for peace. In the mind of organized labor to-day there is a new conception of war with which future statesmen will have to reckon.

Kings could once declare war; yesterday it was the duty of parliaments. To-morrow no king or parliament will be able with assurance to start on a road of hostilities without consulting union labor, for under modern conditions, warfare is carried on by means of the product of the work shops. A war that meets with the disapproval of union labor might fail because guns would be left without ammunition. The industrial effort cannot be commanded with the same precision with which troops are moved in the field. The workmen of the Krupp's works, for example, recently struck when an order for the construction of some heavy guns was given. They would not go on with the work until it was explained to them that the guns were for coast defense in a South American country and their manufacture in Germany had been approved by the Allies. They would make no more guns for Europe.

Union labor has a deep conviction that it can play a political rôle in the future with far more effect than it has ever been able to obtain in parliaments. If it holds up its hands and halts production, prime min-

isters must reckon with its opinions. A three days' general strike in Germany changed the course of political events.

In the minds of many capitalists in both Europe and America there is at the present time the firm conviction that "Labor has not been liquidated"—that is to say that the high wages secured during the war have not been sufficiently reduced. Many capitalistic leaders believe that the lowering of wages is the most important element in reëstablishing production and the interchange of goods. Undoubtedly they could cite a good many practical illustrations where specific wage scales are too high and where the resistance to wage reduction brings about an almost total suspension of industrial activity. European labor believes, however, that the present wages and hours can be maintained by raising production by means of intelligent administration on the part of capital to a point that will support the present scale.

Their discussion of this point of view made me think of a story President McKinley told me once of an incident that happened at the Battle of Gettysburg. In those days, warfare was a primitive picture-book sort of affair compared to what we know of it to-day. The men marched forward in company front, led by a flag bearer who was in this case a youth whose enthusiasm was greater than his military training. In the heat of the movement he got well ahead

of his company. The commander shouted savagely to him: "Bring that flag back to the line." The boy halted, planted the flagstaff firmly in the ground and replied: "Bring your line up to the flag."

Perhaps that illustrates the new vision of union labor in Europe. The employers shout: "Bring wages down to production." Planting its flag on the new ground, labor replies: "Bring production up to wages."

CHAPTER XV

REPAIRING EXCHANGES

In a previous chapter, we have examined the currency disease. After a visit to six or eight of the Central European countries, I came to the conclusion that there was no curative influence at work. Ordinarily, one might hope that time will bring its own remedy. On the contrary, it seems to me that without material aid looking toward reconstruction, time will only further carry down the various currencies to lower levels. It seems obvious that some constructive plan for their stabilization must be put into practice.

I have spoken of the difficulties, the impossible tasks, that face the finance ministers of the countries that have greatly inflated currencies. When the Minister takes up his portfolio, he knows that he must reduce expenses, balance his budget and stop printing further issues of paper money. But no matter how clear sighted he may be or how much advice he may wish to take from economists, he must have the support of his parliament. He finds that economics do not operate in a vacuum free from political and human influences.

If he ruthlessly reduces expenses, he cannot continue to hold office. In these countries, there has been a rotation of finance ministers who have given up in despair, while expenditures go on almost unchecked. If he attempts to increase income, he finds that the taxes that are collected fail to come up to estimates, sometimes by ludicrous amounts. He cannot get much from the peasant who is unused to heavy taxation and who has political power and a large measure of passive resistance. If the taxes fall too heavily on men of wealth, they do not have new capital for productive enterprise. Such taxes become a menace to a normal economic life. When taxes become practically confiscatory, the business man spends almost as much time in his lawyer's office as he does at his desk, finding ways to avoid tax payments which, if he made them, would soon result in his ceasing to be a business man.

There is a long interval between the formulation of a financial program by a finance minister and the time when taxes are actually brought into the treasury, an interval of at least six to twelve months. During that time, a government must run, bills must be paid, and if loans cannot be made the only alternative is the issuance of more paper. When the treasury finally receives the taxes, there has been such a further depreciation in the value of the currency in which they are paid that every calculation is wrong. If the coun-

try is giving a food subsidy, for example, the deficit has obviously been increased because the cost in paper money of buying food in foreign markets increases as the value of the paper money declines. Wages must be constantly raised. Every expense of government increases when expenses are measured in depreciating money.

So at the end of the cycle, the finance minister's hopeful budget is as badly out of balance as was the preceding one. The country's finances have made one more turn down that spiral staircase which they are all descending, Poland and Austria in the forefront, but with half a dozen other nations treading on their heels.

This is why I believe there is nothing curative working in the situation, and that there must be some outside assistance to these nations which are now in this currency vortex, if they are to be saved from complete currency demoralization leading them into a financial dark age where trade will be carried on by barter.

In any attempt to find a cure by creating a feasible new currency designed to take the place of the depreciated paper notes of to-day, it is obvious that the new currency must be divorced from the unrestricted printing press. Poland, for example, is considering a devaluation of its currency and the possibility of issuing a new currency with some other title at a ratio of

about one to a hundred, retiring the old paper with the new notes. This would result in Poland's having a new currency, but the old printing press would still remain. There would still be the budget deficit and the country would inevitably follow the same disastrous road of inflation with the new currency.

It will be seen that in those countries where currency depreciation has reached an extreme point it is necessary to promote the issue of a new currency under some authority over which the government has no direct control. The new currency must not be augmented by government printing and must be so related to gold and to the commerce of the country that its volume will depend upon more wholesome factors than the urgency of the government's demands for credit.

I was asked by practically every finance minister of Central Europe to make some suggestion for creating a starting point at least from which they could get back to a sane currency situation. It was not until after I had visited nearly every country in Europe and had realized the similarity of the difficulties that most of these governments are facing that I formulated a tentative plan which might meet the situation.

Whether this plan proves to be generally acceptable or not, I have a good deal of confidence in stating that any proposal that is successful in averting the com-

plete wreck of currencies in a number of nations must be formulated in the light of the two principles I have laid down. First, that in the present situation there is nothing curative at work, that the disease is a progressive one and that there must be outside help. Second, that a currency must be created that cannot be depreciated by the unrestricted use of the government printing press.

I am familiar with and profoundly believe in the principles of the American Federal Reserve banking system. It was not unnatural that in reflecting on the means of rescuing these nations from further financial collapse, I should consider the application of principles which have proved so efficacious in our own financial life to the extremely distraught situation that I was viewing.

I was specially invited to present my suggestion to the Porta Rosa Conference, a Conference of the so-called succession states of the old Hapsburg Empire, which met at Porta Rosa, Italy. I wrote at Warsaw a plan which was presented at this Conference a few days later.

The suggestion made to the Porta Rosa Conference was for the organization of what might be termed a Gold Reserve Bank for the United States of Europe. I will present it in detail at the risk of boring the average reader, because it is only by giving it as a

whole that the questions and difficulties aroused in one's mind by the consideration of so elaborate a scheme can be answered.

The proposal was the organization of a banking corporation with a paid in capital of gold. This bank might be organized as a "super corporation," that is to say, it would be better possibly if it were not organized under the laws of any particular country. Its corporate existence might be created through the League of Nations or through some other international body.

The suggested capital of one billion dollars would be necessary only when the new organization operated in most of the European states. At the start the capital would be much smaller. The stock would be divided into shares of one hundred dollars each. Subscription to these shares would be open to any one able to subscribe and pay in gold. As America at the present time holds the predominating stock of free gold, it is presumable that the bulk of the initial subscriptions would come from that country. It is not proposed, however, that the stock should be permanently lodged in America and provisions are made under which all of it might in the future be purchased by Europeans. With that in view, the stock would be issued in two classes. The stock subscribed for by Americans would be designated Stock "A." That

subscribed for by Europeans would be designated Stock "B." The two classes of stocks would be identical in all respects except that Class "A" Stock would be subject to retirement by call at say one hundred and twenty.

The affairs of the corporation would be controlled by a court composed of nine Trustees, who would be named in the articles of organization, five of these to be Americans and four to be Europeans. There would also be nine alternate Trustees, similarly divided between America and Europe, any one of whom might act in the absence or disability of any Trustee, and when so acting, would have all the powers of a Trustee. The aim would be to form this Board of Trustees of men of the very highest character and widest financial experience; men who would rise above national selfishness and from whom might be expected a devotion to the general financial rehabilitation of Europe. They would hold the position for life or until reaching an age limit. They would have to free themselves from all other financial connections. In the event of their resignation, they should agree not to engage in any banking or financial business until after an interval of five years.

Vacancies in the Board of Trustees would be filled coöptatively, that is, the remaining Trustees would elect a new Trustee but no new Trustee should be elected who was not approved by a majority of the individual

members of the Federal Reserve Board at Washington. The provisions in regard to this approval by the Federal Reserve Board at Washington, as well as the one providing that five of the nine Trustees should be Americans, would lapse when conditions that will be set forth later had been met. The same conditions would apply to the alternate Trustees.

The Trustees should elect a governor general and a deputy governor general from among their members. The Governor General would preside at their meetings and perform such duties as the executive head of the organization, as the Trustees might designate. The Governor General should be a citizen of the United States until the charter has been amended, which may take place when seventy-five percent of Class "A" Stock has been converted into Class "B" Stock.

In each of those European nations which invite the establishment of a branch of the Gold Reserve Bank of the United States of Europe, a banking corporation would be organized under a special legislative act. These several banks will be referred to hereafter as "Gold Reserve National Banks." The capital of each would be in gold dollars and in such amount as might be decided on by the Trustees. All the capital of each National Bank would be subscribed and paid for out of funds of the Gold Reserve Bank of the United States of Europe.

Each Gold Reserve National Bank would be man-

aged by nine Governors who would be appointed and hold office at the pleasure of the Trustees of the central bank who will be referred to hereafter briefly as the "Trustees." Three of the nine Governors of each Gold Reserve National Bank should be experienced bankers. Three should be selected from among men well qualified by character and position to represent the interests of the general public, and three should be selected to represent specifically the interests of agriculture, industry and commerce. The nine Governors of these banks would probably be citizens of the country in which the bank is located.

The Trustees should appoint an additional Governor of each Gold Reserve National Bank, who would be the Chairman of the Board, but who need not be a citizen of the country where the bank is located. A Deputy who would be a citizen of the country would be appointed to act in the absence or incapacity of the Chairman.

The Board of Governors of each Gold Reserve National Bank would elect from their members a Governor General and a Deputy Governor General as the chief executive officers in whom would repose such powers as the Board of Governors might delegate to them.

The prerequisites to the establishment in any nation of a Gold Reserve National Bank should be:

First—An official invitation by the Government of the country concerned to establish such a bank.

Second—The furnishing, free of all expense, by the Government of an adequate building, equipped for the purposes of the business; this building and the ground upon which it stands to be given the same ex-territorial rights as those enjoyed by a foreign embassy.

Third—An assurance that there will in the future be no legislation enacted to hamper the free circulation of the notes of the Gold Reserve Bank of the United States of Europe. There must be further assurance of no legislation against the free exportation and importation of these notes, against the making of contracts payable in these notes; or against the opening of deposit accounts in these notes in other banks.

In the making of loans and the receipt of deposits each Gold Reserve National Bank would deal solely with incorporated commercial banks and not with individuals. It would make loans only against collateral to an amount equal to perhaps 150 percent of the loan made. The collateral must be short term commercial paper, having not over sixty days to run, or at most not over ninety days, arising out of legitimate commercial transactions and strictly of a character known as "self-liquidating" paper.

"Self-liquidating" paper must be sharply differentiated from advances of capital. To illustrate: The ideal type of "self-liquidating" paper is a loan against produce during the period of its transport from the grower to the consumer, or a loan against raw material during the process of manufacture and until the

manufactured goods are sold. It may also be a loan against merchandise to be paid when the merchant sells the goods bought with the proceeds of the loan.

No loans would be made against stocks, bonds or mortgage collaterals or against government bonds. But if a government was engaged in self-liquidating commercial operations, such as the purchase of grain for resale to its citizens, the paper arising out of such a transaction, bearing the endorsement of a bank, might be rediscounted the same as other commercial paper, if the transaction was on a "self-liquidating" basis.

A bank wishing to rediscount commercial paper at the Gold Reserve National Bank would have to furnish a satisfactory statement of its condition and to submit to periodical examination by accountants representing the Trustees. It must also give satisfactory information regarding the credit of corporations, firms, or individuals whose paper was rediscounted and satisfactory evidence that this rediscounted paper arose out of legitimate commercial transactions.

The Trustees would have power to direct any Gold Reserve National Bank to loan to any other Gold Reserve National Bank against a collateral deposit of endorsed commercial paper. The Gold Reserve Bank of the United States of Europe would have power to issue circulating dollar notes in such form and denominations as the Trustees should designate. It

could make advances of these notes to the various National Banks against deposits of gold or of gold and endorsed commercial paper. The Gold Reserve Bank of the United States of Europe must always receive a minimum of not less than twenty percent of gold against advances of circulating notes, and must keep a reserve of at least twenty percent gold back of all outstanding notes.

The rate of discount fixed by the Governors of the various Gold Reserve National Banks must have the approval of the Trustees. It would vary at the different banks and a progressively increasing rate might be charged by the Gold Reserve National Bank to banks borrowing from it, as the amount of their borrowings increased in proportion to their capital.

The earnings of the Gold Reserve National Banks might be distributed in the following manner:

A dividend of eight percent should be paid to the Gold Reserve Bank of the United States of Europe, upon the stock of the Gold Reserve National Bank, held by it. Three-quarters of the remaining earnings should be allowed to accumulate as a surplus until the surplus amounts to twenty percent of the capital of the Gold Reserve National Bank. After that, one-fourth of the earnings would continue to be accumulated as surplus, and one-half would be paid to the Government of the country in which the bank is located in lieu of all taxes of every description upon the

bank or its circulation. When the surplus of the Gold Reserve National Bank reaches fifty percent of its capital, the full three-quarters of the earnings referred to above would go to the Government of the country in which the bank is located, so long as the bank's surplus is maintained at fifty percent of its capital. The remaining one-quarter of the earnings, after the regular dividend of eight percent has been paid upon the stock, would be declared as an extra dividend to be paid to the Gold Reserve Bank of the United States of Europe.

All stockholders of the Gold Reserve Bank of the United States of Europe would be paid a regular dividend of eight percent if earned, and in addition an extra dividend amounting in the aggregate to the total extra dividends received from the several Gold Reserve National Banks. All the expenses of administration of the Gold Reserve Bank of the United States of Europe, including the salaries of the Trustees, the cost of printing and circulation of its notes, etc., would be apportioned among the several Gold Reserve National Banks and paid by them as operating expenses.

It is to be presumed that the bulk of the initial subscriptions to the stock of the Gold Reserve Bank of the United States of Europe will come from America. It is not the design to perpetuate the American participation or control beyond the time when

the European nations are financially reconstructed, and when they may desire to have the stock owned either by their governments or their citizens. It would be provided, therefore, that all stock initially subscribed for by Americans and known as Class "A" Stock would be callable by lot at one hundred and twenty. Whenever the Government of a country in which a Gold Reserve National Bank was located notified the Trustees that it desired to have delivered to it blocks of stock of ten million dollars or multiples thereof, the Trustees would call in that amount of Class "A" Stock by lot. The holders of it should then surrender it at one hundred and twenty dollars per share and accrued dividends. The Class "A" Stock would have no preference of any kind over the other stock but would be subject to the disability that it may be called at one hundred and twenty and re-issued as Class "B" Stock. This disability would not be attached to Class "B" Stock which would not be callable. The amount of stock which any government might ask to have sold to it or its citizens in this way may not be a greater percentage of all Class "A" Stock than the ratio of the capital of the Gold Reserve National Bank located in the country in question, to total capital of the Gold Reserve Bank of the United States of Europe.

Whenever seventy-five percent of the Class "A" Stock has been converted into Class "B" Stock, the

provision regarding the five American Trustees and the provision regarding the approval of new Trustees by a majority of the individual members of the Federal Reserve Board of the United States, should lapse.

It is the aim of this plan to create an organization which could not be controlled by the financial interests owning the stock, and so insure that there would be no contest between different governments or nationals to acquire stock for the purpose of influencing the management of the Gold Reserve Bank of the United States of Europe. The charter or organization document would constitute the fundamental law under which were administered the affairs of the Gold Reserve Bank of the United States of Europe. It might be provided, however, that the charter could be amended after three-quarters of the Class "A" Stock had been converted into Class "B" Stock, provided that three-quarters of the stockholders united on a program for some new plan of management. It should be further provided that such a change in the fundamental law could not take place unless the remaining holders of Class "A" Stock received an offer, good for ninety days, of one hundred and twenty dollars per share and accrued dividends, or were given the opportunity to change the remaining Class "A" Stock into Class "B" Stock.

The circulating notes of the Gold Reserve Bank of

the United States of Europe should under normal conditions be redeemable on demand in gold. For the purpose of redemption there must always be on hand a gold cover of at least twenty percent. It is obvious, however, that in the present state of universal distrust of all forms of paper money, any financial institution issuing circulating notes and offering at once to redeem them in gold coin might find that its gold reserve was withdrawn as rapidly as the notes were put out. Any plan of the character proposed here could not work in a community which used the notes to draw out the gold and then hoarded the gold. While it is the intention to create a currency that should be redeemable in gold, and for which gold could be had at any time on demand, that desirable condition could only be attained in time and after general confidence in sound bank notes had been restored.

If the withdrawal and hoarding of gold should continue to such a degree that it impaired the usefulness of the bank, the Trustees should have the power for the time being to suspend the redemption of the notes in gold. They should also permanently have the power of suspension in the event of war or other great crises. The provision regarding this power to suspend the gold redemption of the notes would need to be drawn with great care. It is an important part of the whole scheme, though merely the principle in-

volved is mentioned here. Redemptions of currency in gold would only be made when the notes were presented by a bank and not on individual presentation.

Whether this proposal at the Porta Rosa Conference for a Federal Reserve Bank for Europe is ever accepted or not, it is obvious that some plan for the stabilization of currency in many of the countries must be put into practice. As I have said before, many of these nations find themselves in a vicious circle from which they do not seem able to rescue themselves. Their enormous burden of indebtedness and expenditures has led to the inflation of their currencies and this inflation is followed by depreciation and by further increase in indebtedness. The remedy must lie outside of national borders. Any scheme that is devised to save the European states from the peril of financial collapse and the calamities that will follow in its train must rest on some degree of international coöperation.

One of the first objections urged to such a plan as I have suggested is that it appears to present a situation in which the operation of Gresham's Law would interfere with the circulation of the new notes. Gresham's Law enunciates the principle that when two currencies of different values circulate side by side,

payment will always be made in the currency of the lower value, and the better currency will disappear, or will fail to circulate at all. That is true in any normal situation, particularly when the two currencies are issued under identical government authority. It is not true, however, when it is applied to a situation where the public has lost confidence in the value of an existing currency, and demands a new currency which will have some stability.

There are numerous examples of two currencies circulating side by side. For a time our dollars circulated by the side of the Cuban peso. In the Orient to-day, sound bank notes circulate by the side of other currencies. It is true that there would always be a fluctuating exchange relation between the old currency and the proposed new bank notes, and it might be objected that to add another currency with a variable exchange ratio would be only adding to the confusion.

It is inherent in the situation that the introduction of a sound note will bring with it a new element in the exchanges, and that such a new sound note, if measured in the existing depreciated currencies will have a fluctuating value. The fluctuation will really be in the old currency. I think a careful examination of the situation will convince even classical economists that a new currency can be introduced and circulated by the side of the existing currency. It is true that the old currency may continue to be inflated until it

has no value at all and disappears. In the case of several nations in Central Europe this seems not an improbable outlook.

There are many other objections that may be offered to any novel currency scheme. There are many obvious difficulties in the way of introducing such a plan. One should not think exclusively of those difficulties and obstacles, however, but rather of the probable course of events if no remedial measures are attempted. There must be a serious effort made at some point to establish a sound currency which will offer reasonable security against extravagant fluctuations of its value, when used as a measure for future contracts. Commerce requires a currency in which future contracts can be made with some security. At present that is not possible in the case of the currencies of several of the European countries, and it is probable that the number of these countries will increase, rather than decrease.

The suggestion has been made that an international economic conference should be called, in which all interested nations should participate, to discuss the situation. It is hoped that such an international conference might serve a useful purpose by giving its approval and prestige to some particular plan for a rehabilitation of the currencies of a number of European nations. Each individual country hesitates to act alone in giving its adherence to any comprehensive

plan designed to embrace a number of countries. No matter what merits any plan proposed may have, conditions are unfavorable to its adoption without the authoritative approval of a group of international and well-qualified advisers. If an international economic conference would discuss, amend and improve the various suggestions that would be brought before it, and finally give its approval to a particular plan, it would perform an extremely useful service, and one that is urgently needed.

It is not reasonable to expect that America will take the initiative in bringing a large amount of capital together, and proposing a definite program for its use in creating a new currency for Central Europe, but I think it is reasonable to anticipate that a project could be agreed upon which would offer security for the investment, and sufficient promise of profit to draw to it an adequate amount of American capital. While the figure of a billion dollars has been suggested as the capital for a bank which would furnish a uniform currency for all Europe, the start of such an enterprise would be on a comparatively small scale, because in the beginning its operations would probably embrace not over six or eight of the smaller countries, although it might well include Germany. The financial aspect of the problem of raising the necessary capital, when viewed in the light of that fact, becomes a reasonable matter. An adequate beginning

could probably be made with say two hundred million dollars. As we have imported between six and seven hundred million dollars of gold this year, such a sum does not seem impossibly large.

The manner in which the operations of such a bank as I have suggested would begin is more easily understandable when it is recognized that there is already considerable trading going on in some of the Central European states in foreign currencies. The depreciation of their own currencies is becoming so complete that they turn to other currency for greater security.

The plan for a bank which would provide a uniform currency for a number of those countries would offer the financial machinery to accomplish on a larger scale what is already being done in small and varied ways, and under great handicaps. I am not blind to the difficulties that a project for any such bank will encounter in its initial steps, but I am at the same time very keenly awake to the course which existing currencies are taking. In August the Austrian crown touched an exchange value of one thousand to the dollar; by the middle of December it had reached seven thousand to the dollar, and there was nothing to indicate it had arrived at a point of stability.

Such a course in a country's currency ought to make it clear that radical means may be necessary in order to create a currency which has sufficient stability to provide a foundation for current business transactions,

and one in which the terms of future contracts can be stated.

An attitude of criticism toward constructive suggestions is not sufficient in the face of the existing situations. A recognition of the facts, and an earnest attempt to work out a constructive program which will give a starting point for a return to normal commercial conditions is urgently needed.

America ought to play an important rôle in doing this, and out of its experience make an important contribution toward evolving plans. When the question is raised as to what American bankers can safely do in the European situation at the present time, it seems to me that the answer is clear that this is one of the things that they can safely consider, and that it is extremely unwise not to give it consideration.

CHAPTER XVI

THE ALLIES' DEBT TO THE UNITED STATES

THE Great War increased the internal debts of the European belligerents from seventeen to one hundred and fifty-five billion dollars, a ninefold increase. The external debts of these countries, which before the war were insignificant, are now in excess of twenty-five billion dollars.

A situation in which governments owe to other governments sums of such huge proportions is unparalleled in the financial history of the world. Internal debts may reach fantastic figures, but so long as a government has a printing press on which it can turn out legal tender it can always pay interest on its internal loans. Its debts to other nations are quite different affairs. A printing press will not pay these: nothing will permanently discharge them, when the sum ranges into such figures as these debts have reached, except excess of exports of goods.

Such huge debts as these owed and owing to various nations make future financial calculations impossible. Thus far neither interest nor principal has been paid on them, and their weight has been psychological. They have not yet actively figured in international

exchanges. They make a load of potential obligations, however, that has paralyzed the minds of statesmen responsible for the conduct of many European governments. They turn hopelessly from this load of debt and see no possibility, while it is unadjusted, of a return to financial stability. Some settlement, therefore, of inter-government obligations seems an imperative prerequisite to future financial stability.

I do not propose to enter into the nature of what may be termed strictly inter-allied debts, that is, the debts between European nations. Those debts did not arise in anything like the clean-cut way in which were created the obligations of the Allies to the United States. In some respects they were little more than convenient war bookkeeping. Many counterclaims can be pleaded. The debts due from the Allies to the United States stand on a quite different basis. Our government placed dollars to the credit of the various Allies. It is true that these credits, generally speaking, were restricted: they could be used only to pay for material or produce purchased in the United States. That restriction was not universal, however. Considerable sums arising from the credits granted to Great Britain were devoted by the British Government to stabilizing the sterling exchange market. Loans so used found their way to pay for wheat in the Argentine, and to settle other international obligations than those due to the United States.

When the United States Government loaned these sums of money to the Allies, our government expected repayment. At the time the loans were made there was never a suggestion that they should be regarded as part of our contribution to America's war effort. To provide the funds so loaned we sold Liberty Bonds and War Savings Stamps. The Treasury Department instructed those responsible for the sale of these securities to emphasize the fact that part of the money the Treasury got in from American investors was being reloaned to European governments; that those loans would be repaid, and that the interest burden upon our taxpayers would be lightened by interest payments we were to receive from the European debtors.

With the close of the war, there began to arise in Europe confusion of thought and irresolution of purpose in regard to the repayment of these loans. Their total had become so huge, the debtors had become so impoverished, that the weight of the burden seemed in the eyes of Europeans to be intolerable, and, being intolerable, to be unjust.

In the minds of our European debtors the argument ran in this way: We had all, Allies and Associates alike, been engaged in a common purpose. It was as important to America as it was to the Allies that the war be won. Rightly or wrongly, America had come into active participation only toward the end of the struggle. No matter how essential American help may

have been, it was their feeling that America performed in the field no great military feat before hostilities ended. Our debtors argue that there had been a long period prior to our entry into the War, during which we sold to the Allies billions of dollars' worth of produce and military equipment. We had charged high prices: presumably we made great profits. The close of the war found the Allies financially impoverished, horribly hurt by loss of man power, and facing the necessity for vast expenditures for reconstruction. The outlook for reimbursement of these expenditures from German indemnity rapidly grew more and more nebulous.

With such considerations in mind it was easy for debtors to argue, with a logic that convinced their own minds, that America had come into the war late, had largely profited financially before she entered the war, had sustained no direct material war damage, and had lost comparatively few men. It was easy for them to argue that as America had emerged from the war the one really solvent nation, it would be not only a matter of good sense on the part of a rich creditor, but a matter of sound justice as well, if we should cancel the obligations of the Allies so far as their obligations are measured by financial indebtedness to us.

That opinion has come to be held generally in Europe. There is growing irritation because it is felt

that we are again exhibiting the same cautious slowness when we hesitate about canceling these obligations that we showed before we determined to come into the war at all.

In their own counsels at least nearly every nation blankly admits inability to pay.

Great Britain takes a somewhat different attitude. There are owed her by other nations a sum exactly equal to the amounts she owes the United States. Why should not her credits cancel her debts? Many Englishmen are slow to say they do not owe this debt, but on the other hand there are many people in responsible positions in England who hold that the debt should not be considered on the same basis as an ordinary relation between debtor and creditor.

The foregoing is a fair picture of the situation today. The total weight of international obligations has become so great that it menaces all future financial stability. It promises to make the recovery of general financial stability in Europe impossible unless some means for adjusting these debts is found. All debtors would like to see a general clearing of these obligations. Most of them have argued themselves into a frame of mind in which doubt is raised as to the justice of an attitude by the United States looking toward the enforcement of the obligations. In any event, it is believed both by statesmen and financiers

that it is impossible for Europe to stagger back to stability under this enormous load of international debts.

England would be quite willing to pay what she owes if she could be paid what she is owed; failing that, the feeling there is general that her obligations should be canceled if she cancels the obligations due her.

The French have the least objectivity in their point of view of any people in Europe. Their patriotism and nationalism are so intense, their belief that France is a sacred respository of world culture is so complete, that the examination of any subject whatever in France starts with this axiom: "France has been damaged; that damage must be made good; France must be restored." No matter how remote a subject may be from the forces which involved France in this damage, it is never considered except upon the postulate of this axiom. France has been injured; her injuries must be repaired. Unless the conclusions in regard to any problem square with that axiom, the conclusions are set down as wrong.

Europe feels it is gripped to-day in the jaws of pinchers, the handles of which are two sets of financial obligations, impossible of discharge. One handle of those pinchers is the war indemnity, the other the intergovernment debts. By every one outside of France it is admitted that the indemnity as laid is impossible of execution. Furthermore, England sees that if the

indemnity could be paid, its fulfillment would for the time being ruin English industry.

Outside of France there is unanimity of opinion that unless the terms of the indemnity are materially altered, Germany will go into financial collapse. Impossible as the terms of the indemnity are admitted to be, the Allies find their initiative for its alteration paralyzed, because they see that if the indemnity was so altered as to become a tolerable burden for Germany, the Allies would still find themselves facing a burden of inter-Allied indebtedness as intolerable to them as are the existing terms of reparation to Germany. To ease the burdens on the back of Germany only to find themselves crushed by the weight of inter-Allied debts that is hopelessly heavy, paralyzes their purpose to deal with the indemnity situation. And so thus far Germany has been left to drift rapidly on a course that seems likely to end in a financial debacle.

In England there is a sharp awakening to the economic significance of receiving great international payments such as those involved in the figures of the indemnity, or the figures of the inter-Allied debts. Such totals can only be paid in goods. Goods exported by one nation come into competition, either in the home markets of the creditors, or in neutral markets where they are disposing of their own products. It is seen that the export of goods sufficient in amount to meet claims of such magnitude as the indemnity,

or the inter-government debts, cuts new channels of commerce that may hurt the nation receiving payment as much as it burdens the nation making payment. These considerations lead to a search for some means of at least passing the inter-government debts through a clearing house and reducing their total volume. Such a process would help those nations who both owe and are owed, but it would leave the strictly debtor nations still in an intolerable position.

By all odds the largest total among the inter-government debts is the sum owed the United States by the Allies. The economic incidence of the debt due us is complicated by the fact that the United States is solely a creditor. We owe no other nation. In a general clearing of debt, no one could offset any of our claims by a credit which would reduce the amount that others owe us.

The subject is one that is being given profound consideration, not only in those nations which are debtors, but in all other European countries. Those countries which are neither international debtors or creditors, see, nevertheless, that their futures are involved in the future of the debtor nations.

It will be necessary, however, for America at an early date to do some clear thinking in regard to the obligations of the Allies to our government, amounting as they now do to eleven billion dollars. To this subject I have given a great deal of consideration. I

have discussed it with the leading responsible government ministers and financiers of Europe. My conclusions are these:

So far as America is concerned we should do nothing which will stimulate quibbling as to the basic fact of the obligations. We loaned American dollars. They were raised under the greatest pressure from our people. It was at the time regarded by no one as part of our war contribution. That contribution was made in full measure and in ample amounts when we spent directly, as we did, eighteen billion dollars, and when we moved two million men over three thousand miles of water to the battlefields. The loans are matters of honor between our associates and the Treasury of the United States. At the time these loans were made, not the slightest suggestion was raised casting doubt as to the nature of the obligations which were created. They were unequivocal obligations to repay.

America for many years to come will be the great world reservoir of capital. If our first great adventure in granting international credit were to have the unhappy conclusion of repudiation by our debtors, that reservoir of capital will be sealed in the future to any further flow in the direction of Europe. It would be inconceivable that American investors, should they find that foreign obligations are so lightly regarded as to be repudiated when their payment becomes onerous,

will again go into their pockets to find funds for future international loans. That is a point to which European debtors may well give thought. In the rehabilitation of Europe there will be need for American capital. No action should be now taken by European nations which will cut them off from their only important source for the future supply of international loans.

Then comes quite a different point to consider. What would be the effect upon America if this debt were acknowledged and paid? It is true that small balances may be settled by the payment in gold; that pressing obligations may be converted into funded debts running over a long period; it is conceivable that a debt owed by one nation to another might be converted into the ownership of properties or investments acquired by the nationals of the creditor country from the nationals of the debtor country. Broadly speaking, however, obligations running into such amounts as are contemplated in the German indemnity and in the figures of the European international debts can only be discharged by the payment, directly or indirectly, in goods.

If that is admitted it may well give us pause while we consider the effect upon our industrial life of a situation and policy which, if carried to a logical conclusion, may result in the influx into the United States of a heretofore undreamed of total of foreign impor-

tations of competitive goods. It will not do for us to erect tariff barriers against such an influx, if we admit that it is only by the inflow of goods that the debts can be paid. We must make up our minds to receive the goods, and in receiving them accept the consequences.

The full consequences would be profound if the payments could be made and were made with any degree of promptness. We need not look further than to contemplate merely the receipt of half a billion dollars a year of interest. If that came in the form of goods, our industrial situation would be upset in a way and to an extent we have not heretofore experienced. The effect upon our labor situation and the consequent social problems which would be raised, would be menacing.

It would appear then that we had erected a paradox, if we take this view of the situation. To insist that the debts are just ones and should be paid, but to admit that the receipt of payment would be disastrous to us, and therefore should be avoided, is an apparent contradiction. If they can and do pay, one is left with the belief that debtor and creditor will alike be seriously harmed.

In some quarters in America I find a disposition to meet the situation in this way. Feeling a growing apprehension that our debtors, or at least most of them, are insolvent, it is admitted that the cancella-

tion of the debt, or at least its scaling, may be inevitable. If cancellation is inevitable, whatever our opinion of the justice of the claim may be, it is asked if there is not some better way than merely to wipe out the debt. If we should wipe out the debt we may be sure that our late debtors will show very little appreciation. They will in many cases feel that we have been slow about taking an inevitable action.

There is a feeling on the part of those who would exact something in return for cancellation, that Europeans have generally badly mismanaged their affairs; that Europe has brought upon herself, and upon the world, profound confusion. They believe that we have, in the Allied obligations, a certain amount of advantage, even though it is admitted that these debts are an uncertain instrument of power. So it has occurred to many people to wonder if it will not be possible, instead of blankly surrendering our eleven billion dollars, to surrender the debt conditionally,—to surrender it only against some guarantee that in the future European behavior will be improved, to the end that European civilization may be rescued from the grave dangers which it is facing.

That leads to an inquiry in some detail as to just how Europe is now misbehaving. It raises the question as to whether or not it is conceivable that the particular nations owing us can now give guarantees which would be of value for future good behavior.

The first thought in such an inquiry would probably be directed toward a reduction of excessive armaments. That is naturally an obstacle in the way of our showing complete sympathy with France, for example. It will be difficult to agree to the canceling of France's debt to America, while France is of her present mind and continues to maintain an army of seven to eight hundred thousand men.

France might feel, with a good deal of reason, that we should agree with her that it would be national folly for her to reduce the strength of her army, unless she first obtains some outside guarantee for her future. France is neighbor to a far larger nation which to a man now feels that it has been unjustly treated. Germany may be ever so war-sick at the moment, but it is not only conceivable, it is quite probable, that the day will come when Germany will seek by force to retrieve losses imposed by what she believes to be a thoroughly unjust treaty of peace.

If we found that the reduction of armaments in France could be purchased, not alone by the remission of the indebtedness of France to us, but that we must in addition pay with a guarantee which will insure France from future invasion, pay in a guarantee that her national integrity is to be permanently upheld, we might well regard the cost of her reduction in armaments at that price, as too high.

What further bill of particulars of European mis-

behavior might we make up? At least, what other misbehavior is there that any of our debtor nations could themselves correct and could guarantee permanently to stand corrected, in return for our surrendering our debt?

I assume that in any proposal of this type we would be aiming at general European recovery. One of the obstacles in the way of such general recovery is the extent and the terms of the claims of the Allies for reparations. These claims may be far too small to offer material compensation for the damage which Germany has caused; nevertheless, they are far too large to make it conceivable that Germany can pay them.

I put to one of the most distinguished English statesmen of the present day this general problem of war cancellation. I asked him what, in his opinion, we ought to ask for canceling our claims against the Allies, as he strongly felt we should do. His reply showed the objectivity of the British mind.

His proposal was that the American Government should say to the Allies that the Allied indebtedness will be canceled provided the Allies will in turn reduce by the same amount their demands upon Germany for indemnity.

Such a proposal seems to me to be without sound principle. If the indemnity is too high, if its terms are impossible of fulfillment, the Allies have it quite within

their power to reduce it. No more futile proposal could be made to America from a political point of view than to suggest the purchase by the cancellation of our debt of a reasonable attitude on the part of the Allies toward Germany. It would be to purchase something which it is obviously in the interests of the Allies to adopt; failure by the Allies to adopt such a course promises to be followed by such contagious financial decay that the Allies must act promptly, or quickly feel the heavy weight of the consequences. Why then should we purchase this wiser attitude at the expense of canceling our just claims?

Recasting the terms of the indemnity would undoubtedly be a helpful factor in European recovery. The objection to the indemnity as it is now laid is a double one. First, the indemnity is larger than Germany can conceivably pay. The consequences of such a burden, if the Allies persisted in binding it upon her shoulders, will be a financial debacle. Financial breakdown in Germany will inevitably involve other countries in Europe.

The other evil that follows from the present terms of the indemnity attaches directly to the allied creditors. So far as payment is made it is bringing disturbance into their domestic industrial life. That applies particularly to England. Only a fraction of the indemnity is payable to England, but she experiences to the full the false competition, in which Germany is

forced to engage, in order to provide the equivalent of gold payments which the terms of the London Conference compel her to do.

If we undertake to find ways in which we might direct European political policy under the threat of enforcing our financial claim, or under the bribe of relinquishing it, I believe we would find this whole field of exploration a fruitless one. Any attempt seriously to enter it would result in involving us in meddling with European political policy. To become so involved is opposed to every American national sentiment. I should abandon, then, the theory that we might cancel the allied indebtedness in exchange for the privilege of imposing certain rules of political conduct upon our debtors.

I should likewise reject at once the suggestion that in exchange for cancellation we ask to be given certain trade concessions, that we demand special commercial privileges. The genius of our foreign policy has long been the open door, equal rights, a fair field. If we should through the cancellation of this indebtedness buy special privileges for our commerce and discriminatory treatment favorable to American business, we would buy something which we ought not to have, and something which would in the end plague us infinitely more than it would ever prove to our advantage.

What then shall be done? Is there some way in

which the integrity of national promises may be kept, some plan under which our future international relationships may not be darkened by repudiation? Can we, while accomplishing those objects, at the same time avoid the consequences on the one hand of ruining our debtors, and the danger on the other hand of ruining ourselves?

CHAPTER XVII

PAYMENT AND REHABILITATION

Towards the close of the war, President Wilson put into words of high spiritual meaning the very essence of the best of American aspirations for peace. His words inflamed all Europe with a passionate hope that there had come into the world of international relationships a new note of fairness and good-will. Such a wave of idealism swept through the common people of Europe as had never before been witnessed in all history.

Those ideals were hopelessly crushed at Paris. Not one of them remained when the treaties were written, and Europe fell back into something far worse than its old-time cynicism. The voice of America, uttering beautiful doctrines of brotherhood, through its chief magistrate, sounded to Europe like a sacred gospel; and then America, along with her associates, abandoned that gospel. Hope turned into despair, belief into cynicism, and faith was burned up in new fires of racial hatreds. It is a commonplace to say that the greatest opportunity to benefit humanity that ever came to any man lay at one moment in the hands of

Woodrow Wilson. The opportunity passed. Hopes were not realized.

To-day that same opportunity lies at the feet of America as a nation. Its fate no longer rests in the hands of one individual; it is the responsibility of a whole people. Having in our hands the opportunity to do an incalculable service to mankind it remains to be seen whether, as a nation, we will rise to that opportunity, whether we will perform the service that is before us, or whether as a nation we too shall fail.

America can, if she will, shrewdly choose the road out of the difficulties in which she is involved through allied indebtedness. Such a road would, I believe, lead to greater material gain for civilization in general, while for America it would lead to a great moral and vast material gain.

For America it will mean the most substantial material advantage that has ever flowed from any single political act. More important than the material gain, there would be spiritual gain which would give us a moral leadership so far-reaching that the responsibility of it should make us humble rather than vainglorious.

I would want America to be both an intelligent and a lenient creditor. Terms of payment ought to be adapted to the means of our debtors. In that respect we should take the action of the Allies in fixing the terms of the indemnity as an example to be avoided rather than followed.

The crux of my plan would lie in the disposition of the payments.

I would have America make a grand gesture in international relationships. While demanding that the payment be made, I would have America say that she is prepared for the present to forego the receipt of it. That is how the consequences of the paradox may be avoided.

What then shall we do with it? I would like to see every dollar that can ever be paid to us by our debtors for years to come devoted to the rehabilitation of European civilization. It is only through the rehabilitation of European civilization that these debts can ever conceivably be paid. It is only through the rehabilitation of European civilization that America can ever conceivably realize in full measure her destiny, or can expect a full measure of prosperity for her people.

I would bring a spirit into the affairs of distressed Europe which would promise a revival of hope, a renewal of courage, a stimulation of industry.

There is to-day a pall of cynicism, of national hatred, and of disbelief in the sincerity of friend and foe alike, which makes the start towards rehabilitation almost impossible.

Let us now soberly examine what it is that we might do.

Large sections of Europe are backward, judged by

our standards. Backward though they may be, they are bursting with latent possibilities for development. A study of Eastern Europe has aroused in my mind a vivid program. I believe a plan for the development of Eastern Europe could be laid out which might well be compared to the vision our forefathers had when the latent possibilities of our great West were unfolded to their minds.

I do not mean that Eastern Europe is a wilderness. In natural opportunity for development it is vastly richer than any wilderness. There is everything at hand there except education, economic organization, the application of enlightened methods to production, and the harmonizing of blind racial antagonisms.

Everything the war has cost, everything an unwise peace is costing, can be recompensed, and beyond that a great economic margin created, if Eastern Europe can be put in order, can be helped and led wisely to handle its own problems.

You may ask how can I soberly imagine that America can largely contribute toward that end; suppose she had in hand, and was ready to devote to such a purpose the interest and principal of the Allied debts? Great as that sum would be, it would, after all, be small compared to what Europe is already spending for government.

Curiously, as governments are organized in this

world and time, they find it impossible to make expenditures for those very objects which would be of the greatest possible value in improving civilization. Moved as we are, governed as we are, it is possible for nations to raise by taxation huge sums, provided those sums are devoted to certain purposes. Without much grumbling a nation will tax itself to build at frequent intervals a forty-million-dollar battleship. It will tax itself to support a great army, to maintain a too numerous civil service. As a matter of course European nations tax themselves vast sums to pay for the costs of past wars, and to provide against the possibilities of future wars.

While a nation will, with prodigal hands, spend money on those things which have furnished the chief items of national budgets for a thousand years, it will at the same time refrain from doing an endless number of things which, if done, would profoundly affect for the better the nation's future, and profoundly influence for the better the course of civilization.

Most of such admirable projects are now left to be worked out in a puny way by an occasional philanthropist, or more often, left altogether undone. Any one with wide experience and awakened imagination knows that it would be possible to make expenditures of a character now rarely, if ever, sanctioned by the taxpayer, the return upon which, in terms of

the welfare of mankind, would be incalculably greater than is the return from most of the objects upon which government incomes are lavished.

It is to such a program that I would devote for many years every pound, franc and lira we can get of this debt.

I believe if the money was thus wisely expended, one of the results would be such marked economic improvement in Europe that in time every dollar of these debts could be paid. It is now a claim we are never likely to realize, or at least to realize in but small measure.

If such a program were undertaken I would hope that little, if any, of the funds would be expended in strictly welfare work. The last thing we ought to do is to pauperize anyone. There is still perhaps some welfare work that will have to be done, but in the main the expenditure should be made with great vision of the future, rather than as a palliative to ease the distress of the moment.

There is a situation at present in Europe in which the old machinery of commerce, by means of which goods were interchanged and the life of Europe's vast population made possible, is now so out of gear that a resumption of old commercial relationships promises at the very best to be but slowly brought about. Those old relationships must promptly be resumed, or much of what we call the civilization of Europe will

perish. One of my first concerns would be to help to do that; but helping to put in order the old machinery of commerce would not be enough, nor would that accomplishment be really the ultimate aim.

A considerable part of what we received might well be used as a revolving fund of credit. It could be loaned to nations to help them accomplish specific purposes, purposes which we had carefully analyzed and believed to be economically sound and for the general good, purposes which would accomplish substantial and permanent economic and social results. The funds so loaned could in time be repaid; if the purposes for which they had been used were economically sound they could be repaid without difficulty, and could then be similarly reloaned over and over again, and ultimately paid back to us.

With the proposal to collect from our debtors and expend what we collect in Europe, a question at once arises. If our debtors cannot pay us directly, how are they better able to pay us in order that we may expend what they pay in Europe for rehabilitation? If they cannot pay us at all, what is the use of discussing how the money they owe us might best be spent?

There is sharp economic distinction between a payment made directly to us in dollars by European nations and a payment made through us to be left in Europe and expended there for Europe's immediate

economic welfare. If we are to be paid directly it means that Europe must sell to us not only all that she is now selling, but she must sell to us enough additional manufactured goods to equal the interest on the debt and its ultimate extinction. Under present conditions that does not seem feasible.

It is a distinctly different matter, however, for Europe to make payment in kind within her own borders. Rightly directed, there is an ample supply of labor. Payments to us would be made in terms of credits established by our debtor nations within themselves. Payments which we made from these credits would cover expenditures for labor, for materials, machinery, steel or for other products necessary in developing the projects which we decided to stimulate.

The real purport of the suggestion which I make is so to direct European industrial effort that it will not become a sweatshop competition in the international markets with the ordinary articles of manufacture, but will instead be directed toward fresh constructive enterprise that would be for Europe's economic welfare.

If one had a mortgage on a farm and, owing to temporary causes, the farmer was unable to pay his interest, a wise creditor, instead of harassing the debtor into a state of economic hopelessness, might encourage him to put forth every effort to improve the

productive capacity of his fields. It would then be conceivable that a debt that could not at once be paid might ultimately be met. There is a potential productive capacity in Europe which would enable people there greatly to improve their situation. Their efforts could be directed to that end and a great deal accomplished. If we insist on their paying directly to us, such payments as they make will at the present time hamper their economic reconstruction. If we direct their efforts toward their own economic up-building, we will improve the status of the obligations owed us in the end, because we would increase our debtors' capacity to pay.

Europe needs better transportation. We could help provide it. Europe needs a great development of its ample hydro-electric power in order that it may have cheaper motive power, and may economize its far too small fuel supply. We could aid in initiating such projects. There are cities in Eastern Europe that need better systems of sanitation. Such provision would be of great economic importance. We could give impetus to it.

If space permitted, I would lay before you a much fuller exposition of the possibilities of economic development. I would emphasize what might be done for Italy and Austria in developing great hydro-electric possibilities. If we took only six months' interest, two hundred and fifty million dollars, and put it into

hydro-electric development, taking in exchange a mortgage on that development, we should have provided in those two countries for a saving in coal imports which would materially help them balance their foreign trade, and we would obtain for ourselves a sound security which would ultimately be repaid.

If we would devote the income for a few months toward equipping Eastern Europe with a modern grain elevator system we would have conferred a material blessing on Eastern peasants and Western consumers alike in stimulating production and conserving produce.

Mark that there is no relation under this between the source of the receipt and the place of expenditure. The expenditure of the money we received would be made where and how we willed. It would be our affair, not the affair of the debtors.

Some part of what we received, however, would probably be spent without possibility of direct return. If such expenditures were wisely made, the indirect return would be enormous. There could be written a financial prospectus of what might be accomplished by the wise spending of five hundred million dollars a year which would be the most fascinating financial document that was ever prepared.

Let us admit for the moment the possibility of devising a sound and wise plan for such expenditures in Europe. You may still ask why do I think that Amer-

ica has the wisdom, the experience, the temperament, the freedom from unwise political interference which would warrant the hope that we could, even with the best motives in the world, successfully conduct such a great experiment.

A most impressive reason for believing this to be within the range of possibility can be pointed out. It is the work which Americans have done, and are doing, in Europe. I have seen something of that work this year. I have studied with care in many countries the administrative ability which our countrymen are showing, and I have rarely seen anything that made me prouder of being an American.

I know something of the work which the American Relief Administration, operated under Mr. Hoover's direction, accomplished. I am familiar with other American organizations, such as the Red Cross, the Y.M.C.A., the Quakers and the Near East Relief. The character of management of these organizations, the ability which they have displayed in working with foreign people, leads me to have great confidence in the American genius for work in foreign fields.

I have had the opportunity to observe also in the Near East a work which has extended over a far longer period than the American Relief Administration. It is a work less picturesque than that done by some of the American organizations working in Europe, but it has had the advantage of time to prove

its soundness. I refer to the results accomplished by such institutions as Robert College and the Woman's College at Constantinople, as well as to the general educational activities of various American religious groups.

No one can travel through the Near East and meet the men who are to-day responsible for the administration of affairs without in the first place being impressed by the number of such men who are graduates of Robert College; and then further being enormously impressed with the profound influence which the training in such a college of a comparatively few men has accomplished in the political and social life of the Near East. I saw evidences of this in every country in the Balkans.

In its way, Constantinople College has performed the same sort of service, and I have no doubt that other American institutions of learning—and there are some thirty now—have had considerable careers of usefulness.

It may be answered that their influence has not yet brought about a millennium, and that is true; but it has certainly saved millions of people from immeasurably more unhappy conditions than those which they have actually encountered.

All the way from the Baltic to the Black Sea, in Poland, Czecho-Slovakia, Hungary, Jugo-Slavia, Bulgaria and Turkey, there is a newly awakened passion

for education. Men are coming to see that democracy can survive only if there are soundly educated leaders. A work of helpfulness and stimulation can be accomplished in education which will receive enthusiastic support from these various nations. Such a work would cost, in the light of figures we are now dealing with, but a trivial sum. It would profoundly influence the future course of civilization in Europe, and the future welfare of the world.

I do not believe this is an impractical dream, but rather that it is a most materially practical project. The fruit of it would come to quick maturity. Lessons of mutual racial respect are being learned in the schools, colleges and universities where numerous races, born to blind antagonism, are being educated side by side. Multiply the opportunity to learn such lessons, and a profound influence toward softening the world-old hatreds of Europe will be set in motion. It would be a great and fundamental step in the regeneration of Europe, for I profoundly believe that the real solution of Europe's difficulties is a spiritual one, and that with a continuance of these racial hatreds peoples must economically perish.

We would not have to carry it on single-handed; we would only need to start, organize and direct. The means for the enlargement of its scope and the adaptation of its growth to the national genius of the different countries, would come from local sources.

The effect of the program I have in mind would not be confined to Eastern Europe. The restoration of the economic stability of such countries as England, the restoration of the economic stability of all those countries that have become so highly industrialized that they must sell the products of their labor in the form of manufactured goods to obtain the food upon which their existence depends, lies outside of themselves. If they are to continue to live with their present numbers, they must have solvent steady customers for their goods. No greater service could be done those countries nor America than to help build up into economic soundness the customer nations which are to-day stagnating, because of mental and economic backwardness, and racial hatreds. If markets were opened, industrial nations which are now facing starvation would quickly be able to render a service to world society, against which the world would provide them with ample food.

Let us look at the matter from another angle, the angle of food production. No one who has traveled in Eastern Europe with open eyes can avoid the impression of tremendous latent agricultural possibilities. Take the illimitable grain fields of Roumania and South Russia, for example. No lands are more perfectly adapted to the possibilities of almost unlimited improvement of productivity if scientific methods and modern machinery are brought into play.

These wonderful grain fields of South Russia, now

plowed by the diminutive ponies in a way that but scratches the surface, produce on an average six bushels of wheat to the acre. Intelligent instruction, better seed and better breeds of farm animals, the introduction of modern machinery, and an arrangement by which small holdings were united under coöperative associations so that the full benefit of motor-driven farm machinery could be realized, would easily result in producing three times their pre-war product. A work can be done in educating the peasants of Eastern Europe to better agricultural methods, which will compensate most of the losses of the war; to do that will require only a little capital, and a great deal of unselfish service. Such an undertaking as I propose could readily accomplish that.

Is this a plan that would build up difficult competition for our own farmers? Not at all. It is a plan which would help feed a Europe which may otherwise be but partially fed, and help restore to Europe the economic power which will make her a greater customer of America than she has ever been before.

I would not plan to take from England, France, and Italy the last dollar that could be forced from them to pay their debt to us, and then spend it all in Eastern Europe,—great as the indirect recompense of such an expenditure would be in benefiting those Western nations. On the other hand, I would not presume to impose our ideas of culture upon those already highly

cultivated nations. So far as they were ready to accept grants for purposes for which they are, for the time being at least, incapable of providing by direct taxation, I would let a portion of the money they paid us be expended within their own borders.

I would propose to England the establishment of great scientific laboratories. With her genius for sound scientific research she would, through a stimulation of technical education and scientific investigation, give to the world new knowledge of incalculable value.

I would give to Italy, if she agreed to have it, the means for establishing great schools of applied art, so that the tremendous genius for handicraft which the Italian possesses may be turned into channels which will produce goods to enrich the world.

I admit that it would be more difficult to plan such contributions for France. I have memories of service as a Director of the Society for Aiding French Orphans. France rests in the belief—and with no small amount of sound reason—that her culture is already so perfect that she would not accept such expenditure if it came with a touch of American direction. In that field we ought to proceed with caution and modesty and good taste; but even France might agree that some of the money she paid us could, in turn, be expended upon objects in France that would work out for the benefit of mankind.

I would not make the expenditure on such a program

as I am trying to outline wholly a matter of American direction. I would draw upon the culture, the training, the special knowledge, the high purpose of the best of Europeans to aid in formulating the program and in administering it, always keeping the control of the situation, however, in our own hands, for it would be our money that was being expended.

How to administer such a trust as I am suggesting, would form a chapter too long to include in this outline. Perhaps I can visualize what I have in mind in regard to administration in a sentence. If the administration of the whole project of expenditure were placed in the hands of a Commission, headed by Herbert Hoover, I think we could all safely go about our domestic affairs and find nothing but satisfaction as we read the report of the work.

Our history is not wholly devoid of adventures in altruism. When, after the Boxer Uprising, America in common with several European nations was, somewhat to America's embarrassment, awarded an indemnity of some twenty millions, we promptly declared that while it was probably just that China should pay us that indemnity we did not propose to receive it for our own enrichment. So we have in all the years since devoted the payments on account of that indemnity to the education of Chinese students in American institutions. The result of that magnanimous act was to give America a prestige in China such as no other

nation enjoyed. That prestige would have been translated directly into commercial profits, had not the government of China fallen upon such evil days, and had not the commercial opening of China, which some day will be a certainty, been for the time delayed.

I should have no hesitation in arguing the merits of this plan with the coldest of American materialists. All I would ask is that such a man have imagination enough to look ahead a few years for results. Never was there a greater fallacy than to say there are no friendships in business. The very warp and woof of business is friendship, confidence, mutual trust, belief in honest and not too selfish purposes. As a matter of fact, I believe that if we were to look selfishly at the situation over a period of, say, twenty years, there is no proposal in regard to this Allied debt which would begin to give America the material results that such a proposal as I have suggested will bring.

To the mind that hesitates over such a project as this, I would like to put a question. If this plan is not acceptable, what plan then would you propose? To insist upon the payment, and fully to accept all the payment that we could force our debtors to make would certainly result in two things. In the first place, we would get very little; in the next place, we would create a general European atmosphere of antagonism.

The debtor never loves the creditor. If the debtor is seriously impoverished, if the creditor is rich and

powerful, if there are circumstances concerning the debt which permit the debtor to argue, to his own satisfaction at least, that there are palliative circumstances which throw doubt on the full validity of the debt, the relations between debtor and creditor must necessarily become strained.

Under the plan here proposed, it seems to me that the sting of our insistence would be taken away even from the minds of those who to-day see with the least clearness their moral obligation.

If we convert the debt due us into a debt due to humanity the whole world will want to see it paid. Each national neighbor of our debtors will be even more insistent than we that the obligation be discharged, because they will have hopes of improving their own situations with the aid of some of the funds so realized. World sentiment would be favorable to this debt being paid if the purposes to which the amounts were to be devoted were clearly seen to be wise and sound purposes for European regeneration.

We need not make an irrevocable decision when we embark on this program. For a good many years, I believe it would be wise for us to devote all we receive to such purposes as I have suggested. It is entirely probable, however, that there would come such economic restoration that in the end a considerable part, conceivably nearly all, of the principal might be paid to us. Interest money that we loaned and re-

loaned for economic development would be converted from the original obligation of the Allies to obligations representing material properties which we created. Probably they would be backed by the obligations of the governments of those countries where this economic development took place. The time might come when we would cease to make these sums revolving credits for European economic development, because there really would not be further need for us to do so.

I am firmly convinced that in the great catastrophe the war has brought there has been created an opportunity which could never otherwise have arisen. The obstacles which have arisen in the path of European civilization can be turned into stepping-stones leading to a position vastly better than anything Europe has ever known. The war has made a great awakening in millions of dormant minds. It is possible that newly awakened impulses, if they can only be harnessed up to the machinery of production and distribution, can result in a great actual improvement of civilization. That awakening, those impulses, are now disconnected from any machinery of commerce, and they may all be lost in a decaying civilization. We can help turn them to account. The possibilities in society for realizing better conditions for all humanity are undreamed of. The opportunity has arisen to make those possibilities realities.

If we insist to the letter upon our claim, our claim will in all probability never be met. If we insist upon it selfishly, we shall realize in hatreds but not in cash. If we are generous, and wisely generous, those claims can all be paid, and I believe will all be paid, and the good we do with them will mean more to us materially than anything we would conceivably be parting with.

"For whosoever will save his life shall lose it; but whosoever shall lose his life for My sake and the Gospel's, the same shall save it."

CHAPTER XVIII

AMERICA'S RESPONSIBILITIES

THE conclusions of any man who has made an investigation of European problems cannot fail to be grave. I believe that I have shown that there has been some recovery, that some improvement has been made since the armistice, though it is by no means certain that that improvement is permanent, or is likely to be progressive. As I have pointed out, there are deep troubles which peace has not composed. These troubles are racial, national and political; they are commercial and economic. They include inflation and extreme currency deterioration. Debts have been created which are unexampled in the world's financial history. There is a vast total of international debts owed by one nation to another that can for the present be classed as "frozen credit."

The payment of these international obligations presents economic difficulties of a more serious character than do the much greater internal debts. One of the fundamental troubles in Europe is the disorganization of the machinery for the international exchange of goods. Millions of people can live only by the exchange of their labor in shop and factory for importa-

tions of food, so that this breakdown of the mechanism of international commerce raises importunate questions in regard to the food supply.

The general spirit that animates Europe is not amicable. The war left most people in a bad state of nerves, and the atmosphere of fear and rancor created by the peace terms has not calmed them. Europe is shot through with political differences. A conception of exaggerated nationalism has been created which interferes with the freedom of international commerce, and with the recovery of economic equilibrium. Taxes are distressingly high, but not high enough to balance national budgets, and debts have continued to grow since the armistice is an alarming way.

A recognition of the economic unity of Europe is imperative, and there is only the slightest indication of the growth of that recognition. The war seemed to teach few lessons effectively. There is still a great deal of the old underhand diplomacy, and even between the Allies there have been secret maneuvers for selfish advantage. The spirit of Europe is wrong. The reasons for that are not difficult to find, but it is extremely difficult to suggest any practical cure.

What then should be America's rôle? We are not yet an internationally-minded people. During our whole history we have been engaged in internal development, for we have had a raw continent to subdue. While we have made remarkable progress with the

task, it has left us no time to give much attention to world affairs. Up to the outbreak of the war we were a debtor nation. Our economic contact with the rest of the world had taken two forms. We had to secure financial credits to assist our internal developments, and to force the sale of our products and manufactures so that we might have a foreign trade balance with which to meet interest on our debts. It is difficult to adjust our national mind to a realization of the economic change that has come by our transition into the position of the greatest of creditor nations.

We have but a superficial knowledge of foreign affairs. Our domestic preoccupation has been such that foreign affairs lacked vital interest, and naturally we have preferred to engage our minds with matters we understood. During and since the war we have ventured into foreign trade, and the result of the adventure has not been wholly pleasing. Through our lack of experience we made a record in many fields that was neither profitable nor flattering to our national pride.

In view of these conditions, it is not surprising that a great mass of public opinion in America is dissatisfied with our foreign relations. We see that foreign affairs are extremely complicated, and that we are ignorant of many of the underlying forces. We doubt our genius for successfully adventuring either into international politics or international trade. We

have profound confidence in our own institutions, and we believe in the opportunity that an only partially developed America still offers us under the protection of our own laws. We view this vast America with a hundred and ten million economically homogeneous people, earning high wages and used to a high standard of living which high wages makes possible, and feel that there is solid patriotism as well as sound sense in the slogan, "America First."

We are materialistic, though perhaps less so than most other people. There is some recognition that we have a responsibility toward the rest of the world, but even altruists have doubts of the effectiveness of any attempt on our part to concern ourselves more widely with world affairs. Some of them feel that with the best of good intentions we might do more harm than good if we became too deeply involved in world politics.

There is a great weight of solidly materialistic opinion behind the idea that it will be patriotic as well as profitable for us to follow the course that will best conserve America's material interests. Europe's troubles are not of our creating. We are constantly hearing that they could be alleviated if Europeans were animated by a better spirit, and would adopt wiser political aims. Many of us feel that unless Europe reforms it is hopeless for us to attempt to come to Europe's aid on any great scale.

It is natural, therefore, to find that in America the opinion is growing that we can best engage ourselves with our own concerns. Our Government represents a federation of States which are restrained from individual selfishness and which work as a single economic unit. Many believe that we could render no greater service to the world at large than to perfect this illustration of economic, social and political unity.

In any event, the man who is concerned with his own immediate material welfare—and that characterization embraces nearly every one—is coming to believe that his best interests will be served if America does not become further involved in the concerns of other states. A type of individual is developing who might be termed the Little American. He sees his country in the possession of a continent, and a continent with such a variety of resources that it is almost perfectly self-supporting, for with all of the enormous needs of our people, about all that we must have from without our borders are coffee, tea and rubber.

The Little American argues that we could have a very big and very prosperous America without much regard to the rest of the world. He admits that in a self-contained America we would find that certain industrial plants were overdeveloped. The transition period from a time when we exported enormous amounts to one in which we lived a comparatively self-contained life would be trying, but he says that in a

large measure this transition has been accomplished already. We have created a larger productive capacity for iron and steel than would be needed to amply supply our domestic consumption. We are mining more copper than we could use ourselves. For a time we are raising more cotton than we could weave. There would have to be considerable adjustment to make America a self-contained economic unit. There would be no need that it should be completely accomplished, however. The rest of the world must have our surplus products if it has anything left to pay for them. Our foreign trade at best has only been a small percentage of our total domestic business, and we could easily continue to supply the rest of the world enough to pay for those few essentials that we do not ourselves produce.

The Little American says, rightly, that there can be no such thing as general overproduction in this country. There may easily be a maladjustment of production, resulting in an undisposable surplus of certain things, but this maladjustment would be quickly cured. We could adapt our labor to producing a balanced product, and would soon be busy supplying our own wants.

It is not at all a question of all of us living by taking in one another's washing. America is practically a complete economic world, if we will adjust ourselves to a balance of production with consumption. Why

should we not do that? Let us look after our own interests, supply our own material wants, and develop our own resources, the Little American says. This vision of a self-contained America is alluring from the point of view of individual comfort. A self-contained America could be very great in its domestic accomplishment, extremely comfortable in its social life, and highly satisfied with its own general perfection of organization.

It is not alone the strict materialist who looks with favor upon such a course. Broader-minded people begin to raise a question about the wisdom of further increasing the debts which the rest of the world owes to us. International indebtedness has its dangers. It is a cause of friction between governments. Individual investments in foreign countries may be in themselves economically sound, but they are subject to extreme vicissitudes in the event of war. Foreign investments necessitate government protection and are sometimes provocative of war.

It is argued, therefore, that it is not after all such a narrow minded policy to adopt the view that the multiplication of our foreign investments is likely to lead to unpleasant complications in our foreign relations. It might cost us in the future far more than we would gain from the material advantage of continuing predominant world creditor.

I believe that this Little American view is wrong,

though it is not easy to demonstrate to a materially minded person why it is wrong. Personally I am almost in agreement with the Little American in maintaining that this country can be a prosperous self-contained economic unit. I believe we can attain material prosperity even in a world that is elsewhere terribly disordered, and that it is possible to adjust our activities so that we can have as high a measure of prosperity as we have ever known.

But does that conclusion offer sufficient warrant for accepting the program? Is material prosperity solely what we want to obtain, or is it the most important aim we should have? If we concentrated our wealth and our efforts on America alone and were utterly careless of the fate of the rest of the world, I believe that we would lose our soul. I believe that with that loss there would ultimately come a loss of our material advantages.

For the time being we are like a rich man in an impoverished community. Our fields are broad and productive. Our resources are vast in variety and amount. We have great springs of liquid capital. Shall we play the rôle of the selfish rich man?

I do not feel that we have thus far laid ourselves open to the charge that we are playing such a rôle, though it is a fact that such an accusation is in the minds of many Europeans. They are suffering keenly, and feel that when we entered the war we took

an irretrievable step toward participation in European affairs, but that we have been inclined to dodge subsequent responsibilities. Our evasion, they think, has not been confined to financial matters. They feel that we have a prestige and a unique position of potential leadership, and that we have failed to live up to our obligations. In stating, as we did, the aims of the war, and in laying down the principles that should govern the making of peace, they feel that for a time we took the moral leadership of the situation and then failed to shoulder resulting responsibilities. That indictment I do not believe is wholly true, but there is some foundation for it.

Our philanthropic aid has been more than the grudging dole with which the rich man eases his conscience when he passes a person in distress. We have saved the lives of millions of Europeans. More than that, the encouragement and direction we have given in many ways have stimulated Europeans to come to the aid of their own people. We have made a most important contribution in saving a large part of the student body of central Europe from a situation in which, left to themselves, they would have had to abandon the hope of higher education. If democracy is to live, if Europe is to be made safe for democracy, if the progress of civilization is not to be halted, the torch of learning must be carried on and its light increased. We have accomplished a great deal in that

direction. Since the close of the war we have granted financial credits running into figures larger than we ourselves realize. The total of our efforts in Europe has been very great and no one can deny that our assistance has been vital.

The life of the socially-minded rich man is full of disappointments. His good intentions are misinterpreted, his acts of generosity rarely elicit gratitude. He has to content himself with an inner knowledge that his aims are high, and that they are dictated by noble impulses, whether they are appreciated or not. We should not be disappointed with the appreciation we have received.

If our nation fails in the eyes of Europe to recognize its moral obligation, and leaves Europe feeling that we are evading our responsibilities, feeling that from our comfortable point of vantage we do not view her misery with just apprehension, we must not let that put a check on the good work that we are accomplishing.

The situation of Europe is one that needs much more than charity, though there is vital need for a certain amount of charity. We need wisdom to govern our actions in that field, for we must not pauperize Europe. I believe on the whole we have been extremely wise in our philanthropic administration, and have directed it toward helping Europe to help herself. Europe is so sick, however, that she needs

something besides poultices and lotions. She is so sick that she needs a transfusion of blood. She needs encouragement, unselfish helpfulness, perhaps some admonition and direction.

The suggestion which I have made in regard to handling the debts which European States owe us has in it, I believe, the opportunity for offering Europe a very great measure of assistance. We can view the difficulties in Europe with an objectiveness which would make our direction and advice wiser than any other that is likely to be offered. With the best possible administration of such a plan for dealing with the debts due us, however, we would not cure Europe. We would offer aid that would be materially helpful, but I have no illusion that we could wave a magic wand which would at once wipe out the consequences of war and the peace that has followed it.

We can furnish Europe with much needed capital, but in doing that we need to exercise great caution. To loan governments money so long as they fail to regulate expenditures properly would be likely to do more harm than good. We need to consider with great care how effective any further government loans would be in improving the situation permanently. I think there is reason to view with much apprehension further increase of international debts, unless they are contracted under conditions which are reasonably cer-

tain to bring about fundamental improvement in the relations between European states.

While I believe the situation of Europe is extremely grave, it certainly is not hopeless. There are inherent possibilities of building a new Europe which would be more prosperous and comfortable in every way than the old Europe has ever been. The prerequisite for that is a change of spirit, and I believe we can do a great deal to allay the suspicions, the hatreds and the selfishness of European people. We can help them see the necessity for unity; help them apprehend the terrible cost of selfishness. They must understand that the reconstruction of Europe is a comprehensive task. Only united effort, and a recognition that the welfare of individual nations can be achieved through general international good will, can accomplish it. We could largely aid in developing such a spirit.

Our first duty, as Mazarik said, is to understand!

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